ANNUAL REPORT 2020

elringklinger

Our strategic fields of transformation

E-Mobility

Conventional Mobility

Lightweighting for all types of drive systems

Non-Automotive

Experience mobility – Drive the future.

As an independent and globally positioned supplier, ElringKlinger is a powerful partner to the automotive industry. Whether for conventional, hybrid, or all-electric drive units – ElringKlinger offers tailor-made solutions for all types of drive system, both for passenger cars and for commercial vehicles. Many of them, such as fuel cells or high-tech sealing systems, are also deployed in non-automotive applications. Our core competencies include metal punching, embossing, forming, and coating as well as plastic injection molding and the processing of high-performance plastics. In combination with our demonstrable abilities as an innovator, these skills form the basis for a state-of-the-art product portfolio targeted at four strategic fields of the future.

In the field of battery and fuel cell technology as well as electric drive units, ElringKlinger was among the front-runners when it came to positioning itself as an e-mobility specialist with regard to components, modules, and systems. The company's advanced lightweighting concepts help to lower the overall weight of vehicles. This, in turn, reduces fuel consumption and CO_2 emissions, while alternative drive systems benefit from an extended range. ElringKlinger develops and markets sealing and shielding systems for a wide range of applications. Its portfolio is complemented by engineering services, tooling technology, and products made of high-performance plastics – also for industries beyond the automotive sector – as well as a successful aftermarket business. The ElringKlinger Group employs around 9,700 people at 45 sites around the globe.

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The title pages of the annual report and »pulse« magazine are devoted to hydrogen, a key element in the energy sector of the future. Although itself a primary energy source, energy is needed to produce hydrogen – yet given its status as an energy store, hydrogen opens up a whole range of applications. Where the energy to produce hydrogen comes from renewable sources such as wind, hydro or solar energy, climate-neutral mobility becomes a possibility. This is what makes hydrogen a fuel of the future.

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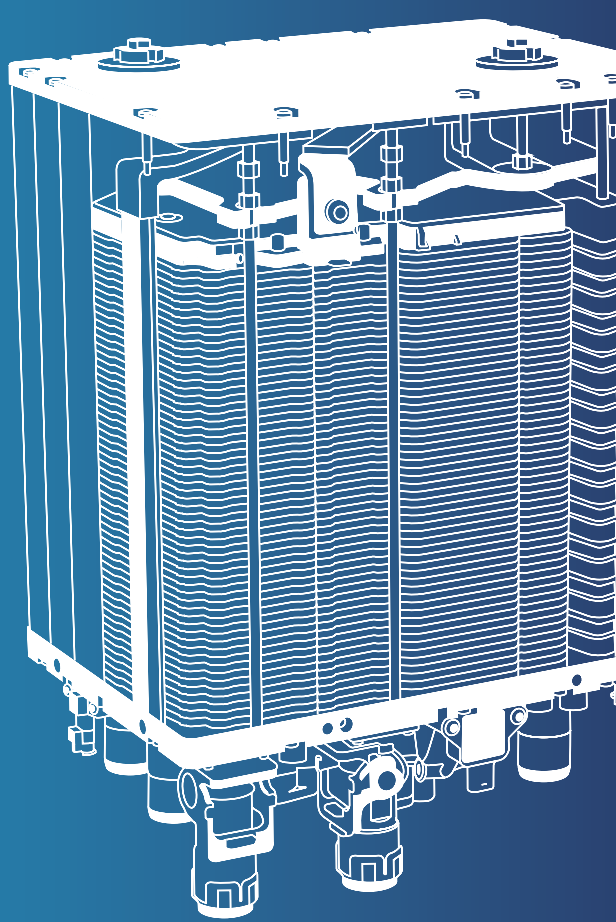
FUEL OF THE FUTURE

Convinced of the future of hydrogen-based mobility, ElringKlinger took important steps during the 2020 financial year to further advance fuel cell technology. Through strategic partnerships with Airbus and Plastic Omnium, ElringKlinger will step up its efforts to develop solutions for climate-friendly mobility by road, rail, water, and air. Find out more in »Fuel of the future« in our »pulse« magazine.



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The Management Board of ElringKlinger AG

Dr. Stefan Wolf, Chairman of the Management Board

Corporate Units

Legal & Compliance

Human Resources

Global Strategy, M&A and Innovations

Strategic Communications

Marketing & Communications

Sales Original Equipment

Business Unit

Aftermarket

Group Companies

Thomas Jessulat, CFO

Corporate Units

Finance

Information Technology

Supply Chain Management

Theo Becker,
CTO

Corporate Units
Purchasing

Real Estate & Facility Management

Product Risk Management

Tool Shop/Technology

Business Units
Battery Technology & E-Mobility

Drivetrain Technology

Reiner Drews,
COO

Corporate Units
Production

Quality & Environmental Management

Business Units
Lightweighting/Elastomer Technology

Metal Sealing Systems & Drivetrain Components

Shielding Technology

German Plants
of segment Original Equipment

Letter to Shareholders

Dear Shareholders,
Ladies and Gentlemen,

The financial year just ended was both extraordinary and challenging. With the world in the grip of the coronavirus pandemic for almost the entire year, everyday life and economic activity went into hibernation. What is more, the pandemic is still far from over.

At ElringKlinger, we felt the effects too. Indeed, we were forced to adapt production in line with demand in the spring of 2020. And yet, we also knew that the downturn would be temporary. With this in mind, we decided to process incoming and outgoing goods simultaneously. On the one hand, we closely monitored the demand levels of our customers in order to control production and delivery in line with the market; on the other, we clearly communicated the purchase situation to our suppliers with a view to preventing supply chain interruptions and sidestepping exposure to shortages in preparation for the expected post-lockdown recovery. Our central areas – the emphasis being on Purchasing, IT, Production, Supply Chain Management, and Sales – have been doing sterling work in this area along with our business units.

When demand began to rise again as the lockdown was eased, we were ready. In China, thanks in part to the commitment of our employees on site, things soon went back to normal. As I mentioned at the last Annual General Meeting, when employees found themselves unable to return to their workplaces on time after the New Year celebrations because of national travel restrictions, administrative staff volunteered to take on production tasks after a brief induction phase – just to get things moving again as fast as possible and assist the return to normal levels. This illustrates the deep and worldwide sense of community we have fostered at ElringKlinger. In fact, mutual support was in evidence throughout our global regions as we tailored our operations to market recovery in line with demand.

With this example in mind, I would like to extend my heartfelt thanks to our employees on behalf of all my colleagues on the Management Board. Their day-to-day dedication, their expertise, their flexibility, and their dependability were critical in enabling ElringKlinger to meet the challenges of a year overshadowed by Covid-19 with relative success.

In overall terms, despite the impact of the pandemic, ElringKlinger can point to a satisfactory financial year in 2020. While Group revenue fell by 14% to EUR 1,480 million – or by 12% where adjusted to take account of currency and M&A effects –, global automobile production contracted by fully 16% over the year as a whole; we therefore managed to outperform the market.

Both earnings and operating free cash flow, once again in three figures at EUR 165 million, reflect the success of our Group-wide program aimed at raising efficiency levels. Committed to improving key Group performance indicators for the long term, we have been implementing this program since 2019 – revamping numerous processes, ironing out inefficiencies, and cutting costs. In the process, we succeeded in improving our earnings structure (as measured by gross profit margin, for example), even if the pandemic obscured the true extent of our success. Group earnings before interest, taxes, depreciation, and amortization (EBITDA) were sustained at the previous year's level despite the fall in revenue, while the EBIT margin stood at 1.9%.

The efficiency program also focused on other key indicators: inventory levels were optimized, trade receivables were actively controlled, and payment terms in relation to trade payables were extended. These measures resulted in improved net working capital, which in turn contributed to strong operating free cash flow. This enabled us to reduce net financial liabilities, while significantly expanding the Group's financial scope with an enhanced balance sheet structure.

Over the past financial year, we also established some major strategic pointers to the future. As is clear from our partnership with Airbus, fuel cells represent a highly promising technology: if the aviation industry, with its stringent requirements, can envisage using fuel cells to support low-emission mobility, the technology will surely meet the demands of road, rail, and water applications. The basis for the Airbus partnership is the high power density that characterizes the ElringKlinger fuel cell stack. Having thoroughly analyzed the market, Airbus finally chose ElringKlinger as a partner based on the persuasive properties of our stack – and being selected has motivated us to develop the technology for the long term.

Late in October 2020, we also concluded a strategic alliance with the French automotive supplier Plastic Omnium. Working in partnership through our subsidiary EKPO Fuel Cell Technologies, we will aim to open up the market for fuel cell stacks and components. To this end, we have contributed our technology and assets to the company, while Plastic Omnium will finance development, market exploitation, and capacity expansion over the next four years to the tune of EUR 100 million. The joint venture company is based at our headquarters in Dettingen/Erms.

Fuel cell technology is not the only area of transformation at ElringKlinger. At our Thale site, we have installed an assembly line for battery technology which in future will enable the Group to manufacture battery systems to meet existing series production orders. In the area of electric drive units, we have made every preparation necessary to ensure series production can commence at our British site during this financial year. In the E-Mobility business unit, therefore, we expect to see rapid growth in sales figures, plus contributions to earnings over time. In lightweight construction, meanwhile, we can point to expanding demand for our innovative product solutions.

Although we are focusing on new technologies and lightweighting in the development of new products and the exploitation of growth potential, our traditional areas of business continue to be highly important. We have created a new business unit: Metal Sealing Systems & Drivetrain Components brings together the former Cylinder-head Gaskets and Specialty Gaskets units but, as part of the new structure, also focuses heavily on alternative drive technologies. Clearly, we have no intention of relinquishing our strong market position for the classic products, which represent both the roots and the basis of ElringKlinger's success.

Having built up substantial expertise and technological know-how in these areas over the decades, we possess the knowledge of materials, products, and processes needed to develop innovative products for alternative technologies. To some extent, then, the transformation at ElringKlinger is being shaped by our traditional fields of business.

Thanks to the success of our efficiency enhancement program and the key milestones in fuel cell technology, the capital market has come to rate our Group higher: over the course of 2020, the price of ElringKlinger shares rose by more than 350% on the low point for the year seen in the spring. This encouraging development is a vindication of our strategy and shows that ElringKlinger is extremely well placed to face the future. On that note, I would like to thank you, our shareholders, for the trust you have shown in the Group.

The post-pandemic recovery and the transformation of mobility is presenting significant opportunities from which ElringKlinger will seek to benefit across all areas. I invite you to explore the growth potential of the Group – and hope you will enjoy browsing through this annual report.

Dettingen/Erms, March 2021
Best regards,

Dr. Stefan Wolf
Chairman of the Management Board

Report by the Supervisory Board 2020

Financial year 2020 was dominated by the global coronavirus pandemic, which also had a severe impact on ElringKlinger in the period under review, particularly in the first half of the year. The company had to come to terms with state-imposed plant closures as well as disruptions to supply chains within a globally intertwined industrial environment. Maintaining ElringKlinger's ability to conduct business, while streamlining costs to the greatest extent possible, was of particular importance. The top priority, however, was to protect our employees against coronavirus infection by introducing appropriate hygiene policies and measures to restrict personal contact wherever possible. Overall, ElringKlinger succeeded in weathering the continuing crisis more effectively than originally anticipated. Despite the difficult environment, the company managed to achieve key goals such as the continued reduction of debt. Important steps were also taken for our company with regard to the further transformation of drive systems from the internal combustion engine to electrified units. In this context, the strategic partnerships launched with Airbus and the French automotive group Plastic Omnium in the field of fuel cell technology are worthy of mention. Ultimately, this also had a positive effect on ElringKlinger's share performance.

The Supervisory Board of ElringKlinger AG performed in full the duties incumbent on it according to the law, the Articles of Association, the rules of procedure, and the German Corporate Governance Code. It supervised the Management Board and acted in an advisory capacity. The Supervisory Board received appropriate monthly reports from the Management Board on key figures, matters of business, and events. In addition, the Chairman of the Supervisory Board and the Chairman of the Management Board (CEO) were in regular and ongoing contact and exchanged information in particular on the economic situation, important business developments, and other significant events. The Chairman of the Supervisory Board informed the other members of the Supervisory Board without delay of significant occurrences. Accordingly, the Chairman of the Supervisory Board and the entire Supervisory Board were kept informed at all times about business policies, corporate planning, profitability, and the situation of the company and the Group. The Supervisory Board was involved at an early stage and in an appropriate manner in all decision-making processes of significant importance. Such decisions, particularly those of strategic importance, were discussed in detail with the Management Board. To the extent that decisions or measures taken by the Management Board required the approval of the Supervisory Board, such approval was obtained accordingly prior to the execution of such measures.

The Supervisory Board convened for five meetings in the reporting period. At the meetings, the Management Board regularly provided a detailed overview of business developments, particularly as regards the direction taken by revenue and earnings as well as the cash flows and financial performance of the Group, ElringKlinger AG, and its subsidiaries. The Management Board presented its latest projections together with its assessments of the economic, market, and competitive situation. In addition, the Management Board supplied regular information on the current risk situation and, where necessary, relevant compliance-related issues, significant legal disputes, and other matters of fundamental importance. Strategic projects were another important aspect of the meetings, particularly with regard to the further development of the company, such as the aforementioned collaborative activities in the fuel cell sector. The issues were presented and discussed during the sessions of the full Supervisory Board. A particular focus of deliberations and the subject of every Supervisory Board meeting in the past financial year was coping with the effects of the coronavirus pandemic and, in turn, emphasizing the need for cost savings and further optimization programs to improve the Group's profitability in a sustainable manner.

In addition, the Supervisory Board dealt with the following topics at its meetings in the year under review, alongside the agenda items already mentioned:

- On March 26, 2020, the Supervisory Board focused on the annual financial statements and the combined management report of ElringKlinger AG and the Group as of December 31, 2019, the 2019 annual report, including the Supervisory Board report, the corporate governance report, the compensation report, the combined non-financial report, and the auditor's report compiled by

Klaus Eberhardt
Chairman of the Supervisory Board

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The Supervisory Board adopted the annual financial statements of ElringKlinger AG, endorsed the consolidated financial statements together with the combined management report, and approved the non-financial report. The results of the efficiency review conducted in respect of the duties performed by the Supervisory Board were presented and discussed by the board members. Finally, due to the expected persistence of the coronavirus pandemic and the associated contact restrictions, the Supervisory Board resolved to hold the Annual General Meeting as a virtual meeting without the physical presence of shareholders, provided that the relevant draft legislation proposed at the time came into force. This was the case in April 2020.

- At the Supervisory Board meeting on May 19, 2020, the Personnel Committee reported on the proposal to adjust Management Board compensation to the revised provisions of the German Stock Corporation Act (ARUG II) and the requirements of the German Corporate Governance Code, which had also been revised. It adopted the agenda for the virtual Annual General Meeting scheduled for July 7, 2020.

- At the Supervisory Board meeting on July 7, 2020, which took place upon conclusion of the virtual Annual General Meeting, Messrs. Klaus Eberhardt and Markus Siegers were elected to the posts of Chairman and Deputy Chairman of the Supervisory Board respectively. In addition, the members of the Supervisory Board committees to be newly appointed were elected. Finally, the proceedings of the Annual General Meeting, which was held virtually for the first time, were discussed.

- The newly designed compensation system for the Management Board was approved at the Supervisory Board meeting held on September 30, 2020.

- As scheduled, the agenda for the meeting on December 3, 2020, included the 2021 budget and medium-term business planning. In addition, the Supervisory Board dealt with the audit and compliance report and took note of the results of the EMIR audit, which was conducted without any objections. The Supervisory Board decided to commission Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft to assist it in reviewing the non-financial report. In addition, the full Supervisory Board was informed about the Audit Committee's deliberations with regard to the forthcoming audit of the annual financial statements.

The meetings were attended by all of the Supervisory Board members in 2020. Due to the contact restrictions associated with the coronavirus pandemic and in order to protect all those taking part, meetings were held using electronic media without the participants being physically present.

The Audit Committee convened on two occasions during the year under review. The meeting in March 2020 was devoted to in-depth discussion relating to the auditor's report on the 2019 annual financial statements. The agenda of the December 2020 meeting convened by the Audit Committee included the task of defining the focal points of the audit for financial year 2020, the procedure with regard to the audit of the financial statements, and the initial results of audit procedures carried out. Both meetings were attended by the auditors of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft who were responsible for the audit. In particular, the Audit Committee also monitored the independence and efficiency of the auditor. Additionally, as in previous years, the CEO reported regularly to the Chairman of the Audit Committee on the results of internal audits.

The Personnel Committee met on three occasions during the year under review: in February, April, and September. The subject matter of all meetings was the adjustment of Management Board compensation to the new requirements of the Stock Corporation Law and the German Corporate Governance Code. At the meeting convened in April, the committee also discussed the review of the pension entitlements of Management Board members and the extension of the Management Board employment contract of Mr. Reiner Drews. The Mediation Committee did not have to be convened during the financial year just ended.

There were no conflicts of interest between Supervisory Board members and the company in financial year 2020.

The provisions of the German Corporate Governance Code were discussed during the plenary meeting of the Supervisory Board. At the Supervisory Board meeting in December, the declaration of compliance with the German Corporate Governance Code was approved after extensive discussion. The declaration was made available to shareholders on the company's website on December 3, 2020.

As stipulated by the provisions set out in the German Corporate Governance Code, the Supervisory Board conducted an efficiency review in respect of its board and committee activities on the basis of a questionnaire to be completed by all members.

In accordance with the requirements of the German Corporate Governance Code, the company supports the members of the Supervisory Board with regard to professional training measures. Basically, it is at the discretion of the respective Supervisory Board member which measures he or she considers suitable and appropriate. In the reporting year, for example, one member of the Supervisory Board took part in specialist events focusing on the duties of the Supervisory Board. The costs were borne by the company. Another Supervisory Board member had planned to attend a symposium on engine development. However, due to the pandemic, this event was cancelled.

The annual financial statements of ElringKlinger AG and the corresponding consolidated financial statements with the combined management report for financial year 2020, as presented by the Management Board, were audited by the auditors Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The audit mandate had been issued by the Supervisory Board following the appointment of the auditor by the Annual General Meeting on July 7, 2020. In accordance with Section 315e of the German Commercial Code (HGB), the consolidated financial statements of ElringKlinger AG were prepared on the basis of International Financial Reporting Standards (IFRS). The auditing firm issued unqualified audit opinions for the annual financial statements of ElringKlinger AG as well as for the consolidated financial statements, including the combined management report, for financial year 2020. The Supervisory Board was in possession of the documents relating to the financial and consolidated financial statements as well as the two audit reports compiled by the auditor. The aforementioned documents were studied in depth by the Audit Committee and the Supervisory Board as a whole before being discussed at length and examined in the presence of and in consultation with the auditors responsible. The Supervisory Board concurred with the outcome of the audit. No objections were raised. At its meeting on March 25, 2021, the Supervisory Board adopted the annual financial statements of ElringKlinger AG and endorsed the consolidated financial statements together with the combined management report. Furthermore, the Supervisory Board approved the non-financial report.

The Supervisory Board would like to thank the Management Board and all members of staff at ElringKlinger AG and its subsidiaries in Germany and abroad for their tremendous commitment and successful efforts in a year of global crisis that was dominated by the coronavirus pandemic.

Dettingen, March 25, 2021

On behalf of the Supervisory Board

Klaus Eberhardt
Chairman of the Supervisory Board

ElringKlinger and the Capital Markets

Having initially felt downward pressure as the coronavirus pandemic took hold, global stock markets managed to make further gains over the course of the 2020 financial year, despite the significant restrictions faced by the economy as a whole. Shares issued by vehicle manufactures and automotive suppliers also benefited from this upward trend. As one of these dynamic performers, ElringKlinger saw its share price surge by 94%, which was well in excess of the gains achieved by many of its peers. The company's strong positioning within the field of next-generation technologies, in particular, generated heightened interest and produced substantial trading volumes on the stock exchange. Ultimately, this also provided the basis for the company's return to the SDAX index. Against the background of the coronavirus pandemic, which had a direct impact on road shows and conferences in terms of practicability, ElringKlinger mainly turned to virtual media for the purpose of maintaining its dialogue with capital market players. In this context, not only the Annual General Meeting but also capital market conferences and road shows took place online.

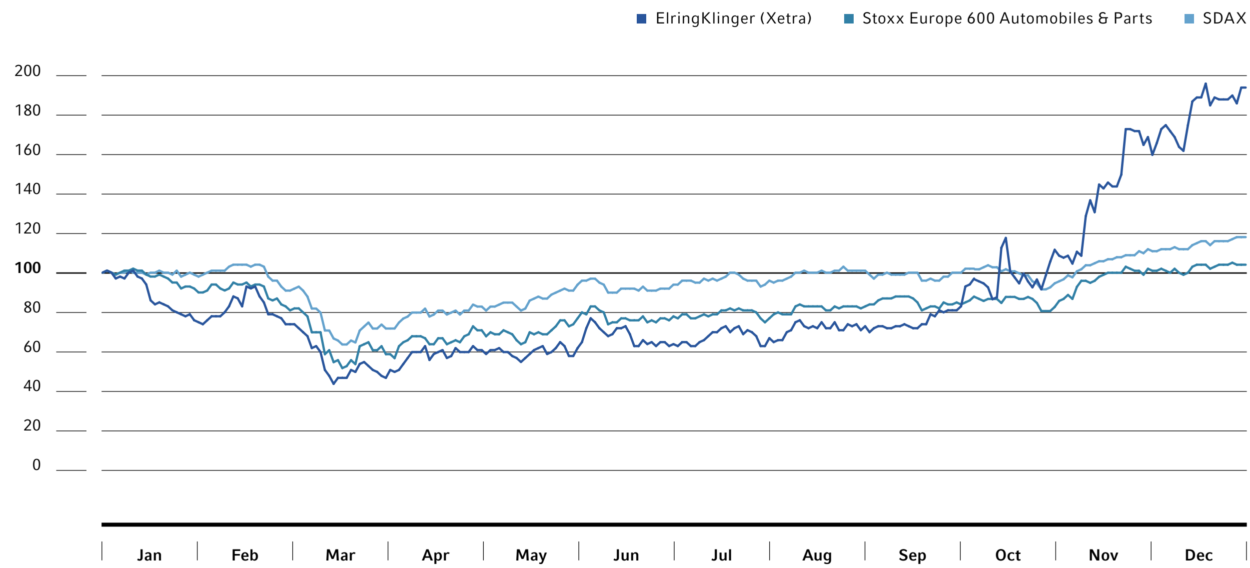
Stock markets driven by pandemic and subsequent recovery

Stock markets were severely impacted by the coronavirus pandemic as early as the first quarter. Despite strict protective measures introduced in China in mid-January, the virus gradually managed to spread globally. As a result, the economies of many countries around the world came to a complete standstill. Among other things, this precipitated a slump in the oil price, a severe decline in international purchasing manager indices, a dip in the Ifo Index, and a global collapse of car sales. This triggered a number of profit warnings by exchange-listed companies as well as some severe downside movement on stock markets. In the wake of this, the DAX lost almost 40% in value within just 28 days, having previously recorded an all-time high in the first quarter. Losing 25% within 16 trading days, the S&P 500 index also saw a sharp decline. Various economic stimulus programs launched by governments around the globe brought some respite to markets.

Over the course of the second quarter further measures aimed at supporting the economy, together with the lifting of lockdown restrictions, contributed to market recovery. Having said that, the economy as a whole remained weak. The US Federal Reserve maintained its fundamentally pessimistic stance with regard to projections for the US economy. In addition, political unrest in the United States and growing tension between the US and China had a decelerating effect. Despite the onset of a second wave of the pandemic, the economy continued to pick up during the third quarter. Thanks to the steady improvement in Germany's Ifo Business Climate Index and the return to more normal levels of economic performance in China – in conjunction with an increase in car sales – stock markets managed to make slight gains in the third quarter. In the fourth quarter, news of the start of coronavirus vaccinations propelled stock markets around the globe to new all-time highs. The extension of the bond-buying program by the European Central Bank and the conclusion of a Brexit agreement between the EU und the United Kingdom also proved beneficial towards the end of the year.

Against the backdrop of the difficult underlying conditions outlined above, the German stock market recorded slight gains – despite the severe collapse in prices seen in March. Germany's blue chip index, the DAX, rose by 3.5% over the

ElringKlinger's share price performance (XETRA) from January 1 to December 31, 2020 (indexed)
in %



course of the year, while the market's mid- and small-caps, the MDAX (8.8%) and the SDAX (18.0%), achieved even larger gains. The Prime Automobile Performance Index, which covers the most important equities within the German automobile and automotive supply industry, closed the year with a gain of 6.1%.

ElringKlinger stock gains 94% during trading year

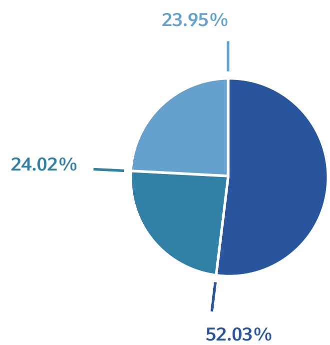
Having trended upward in the fourth quarter of 2019, ElringKlinger's stock experienced a period of consolidation at the beginning of 2020, which saw the share price decline until early February. Subsequently, the company's share price moved in a more favorable direction again, reaching EUR 7.55 on February 19, 2020, the publication date of ElringKlinger's preliminary results for fiscal 2019. Germany's stock market as a whole then came under severe pressure as the coronavirus pandemic took hold, as a result of which ElringKlinger's share price fell to a low of EUR 3.61 in mid-March. Due to the economic impact of the pandemic and extensive adjustments to production, the stock managed to recover only slightly to a level of EUR 3.91 by the end of the quarter.

Key Indicators for ElringKlinger's Stock

	2020	2019
Earnings per share IFRS (after non-controlling interests, in EUR)	-0.64	0.06
Shareholder's equity per share as of Dec. 31 (in EUR)	12.82	13.48
High (in EUR)[1]	15.96	9.25
Low (in EUR)[1]	3.61	4.42
Closing price as of Dec. 31 (in EUR)[1]	15.84	8.16
Dividend per share (in EUR)	0	0
Average daily trading volume (German stock exchanges; volume of shares traded)	214,000	104,900
Average daily trading value (German stock exchanges; in EUR)	1,503,500	662,400
Market capitalization as of Dec. 31 (EUR millions)[1]	1,003.6	517.0

[1] Xetra trading

Shareholder Structure as of December 31, 2020



- Estate of Lechler families
- Institutional investors
- Private investors

After the plunge in its share price recorded during the first quarter, ElringKlinger's stock began the second quarter with significant gains, before trending sideways from April onward. Even the quarterly results reported as part of an ad hoc announcement in April were unable to break this trend, although according to analysts' comments they had been above expectations. As time progressed, automotive stocks were also in demand again, buoyed by the general economic upturn together with the announcement of stimulus programs in Germany. In response, ElringKlinger's share price rose to EUR 6.25. Toward the end of the quarter the stock fell to EUR 5.29, but this was still more than a third up on the price reported in the first quarter.

The company's shares continued to make gains during the third quarter. Rising by almost 25%, the stock partially offset the severe losses recorded in the first quarter. On publication of ElringKlinger's quarterly results in August, the share price then finally pushed past the mark of six euros. At the end of September, the share price rose sharply yet again, boosted by the company's online participation in a major capital market conference. At the end of the quarter, as of September 30, 2020, ElringKlinger's share price stood at EUR 6.60, which also marked its quarterly high.

The company's stock recorded its largest annual gain by far during the fourth quarter. This is likely to have been driven to some extent by the announcement in mid-October that ElringKlinger had entered into a strategic partnership with Airbus in the field of fuel cell technology. Furthermore, at the end of October ElringKlinger reported that it had established a strategic partnership with Plastic Omnium, aimed at accelerating the development, production, and marketing of fuel cell stacks. This news was particularly well received by the capital markets, subsequently contributing to substantial gains together with, at times, high daily trading volumes. Ultimately, the company's share performance in the second half of the year paved the way for ElringKlinger's reintroduction to the SDAX index in December 2020. Overall, ElringKlinger shares made a gain of 94.1% over the course of the 2020 trading year, rising from EUR 8.16 to EUR 15.84.

Trading volume in 2020 up on previous year

The trading volume of ElringKlinger's stock in fiscal 2020 was up substantially on the prior-year figure. The average daily volume of ElringKlinger shares traded was 214,000 (104,900) units. Correspondingly, the average daily value of ElringKlinger shares traded on German stock exchanges was around EUR 1.5 million (EUR 0.7 million), i.e., significantly higher than in the previous year. This substantial trading volume also offered sufficiently high levels of liquidity for institutional investors to conduct larger share transactions.

AGM 2020 held virtually for the first time

At the Annual General Meeting of ElringKlinger AG, which was held in a virtual format for the very first time on July 7, 2020, CEO Dr. Stefan Wolf reported on business developments over the course of the 2019 financial year, which was dominated by a number of challenges both for ElringKlinger AG and for the automotive industry as a whole. The shareholders of ElringKlinger AG voted by a large majority in favor of the proposed resolutions on the approval of the actions of the Management Board and Supervisory Board. In addition, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, was appointed as the auditor for the financial year 2020.

As in the previous year, the parent company's annual financial statements for 2019, as adopted by the Supervisory Board, showed a net loss for the year. Accordingly, in 2020 the Management Board and Supervisory Board had jointly decided to again suspend the dividend for the previous year. This also further strengthened the company's financial power.

Key Indicators for ElringKlinger's Stock

International Security Identification Number	DE0007856023
German Securities Identification Code	785602
Exchange symbol	ZIL2
Ticker symbol Bloomberg	ZIL2
Ticker symbol Reuters	ZILGn.DE
Share capital	EUR 63,359,990
Number of shares outstanding	63,359,990
Stock exchanges	Xetra and all German exchanges
Market segment	Regulated Market
Transparency level	Prime Standard
Index	SDAX

Shareholder structure: more private investors than in the previous year

There was no change in the ratio of shares in free float to those in family ownership. At the end of the year, the ownership interest held by the Lechler families amounted to 52.0% of the 63,359,990 no-par-value shares issued in total. Within the free float (48.0%) the company saw a slight shift in the overall structure towards private investors. Private investors held 24.0% (2019: 23.3%) of shares at the end of the year, while institutional investors accounted for 24.0% (2019: 24.7%) of the ownership interests.

Virtual dialogue with the capital markets

The impact of the coronavirus pandemic made face-to-face interactions with capital market players increasingly difficult from March 2020. Despite these adverse conditions, ElringKlinger continued to communicate via virtual channels. Thus, even during the global pandemic, the company remained true to its clear commitment to providing continuous, timely, comprehensive, and transparent reporting on current and future developments within the company and the industry. In this context, the company made use of various communication channels.

With the exception of two capital market conferences in January 2020, which were still held as face-to-face events, the Group participated in six other conferences virtually. At the same time, the Group also switched to an electronic format for road shows. Feedback from both investors and participating brokers clearly showed that the new format is also very well suited for capital market dialogue.

On the day its quarterly results were published, ElringKlinger AG organized conference calls for institutional investors and analysts, which were streamed live on the internet. The audio recording of the analysts' conference and the presentation were made available online on the ElringKlinger website upon conclusion of the aforementioned events. In addition, ElringKlinger held a virtual conference for journalists and a separate one for analysts relating to the publication of its annual report. At the end of the conferences the Management Board of ElringKlinger AG engaged in dialogue with those attending these events.

Growing importance of sustainable companies and business models

Even during the coronavirus pandemic, the issues of sustainability, climate change, and the environment continue to be of immense importance. Investors are increasingly focusing on sustainability criteria that encompass both environmental and social concerns. These criteria complement economic metrics, which are no longer the sole basis of investment decisions for many investors. Corporate governance has also become an integral part of the investment decision for many retail and institutional investors.

Overall, ElringKlinger's profile is an interesting proposition for investors embracing the aspect of sustainability, as the company pursues a sustainable, long-term approach to business and thus operates in line with key environmental and quality standards as well as the German Corporate Governance Code* (GCGC). The same applies to the product portfolio of ElringKlinger AG: the Group's solutions not only

* see glossary

help manufacturers of internal combustion engines to reduce emissions but also contribute to the transformation toward more environmentally friendly forms of mobility through innovative components and systems in the field of next-generation drive technology. This is consistent with the goals of many sustainability investors.

ElringKlinger's current sustainability report, which is available on the Group's website, provides a detailed account of its commitment to sustainability. The impacts of the company's operations on environmental matters, social and employee-related matters, respect for human rights, and anti-corruption and bribery matters are discussed separately in the non-financial report issued by the Group. The report is published on the ElringKlinger website at www.elringklinger.de/2020-nfb-en.

Corporate-Governance

The Management Board and the Supervisory Board of ElringKlinger AG annually publish a Statement of Corporate Governance in accordance with principle 22 of the German Corporate Governance Code in its version from the 16th of December 2019, which also includes the Declaration of Conformity adopted on the 3rd of December 2020. The Declaration is available online on the corporate website at www.elringklinger.com/en/company/corporate-governance.

Sustainability report

Detailed information and key indicators relating to human resources, social commitment, the environment, and quality can be found in ElringKlinger's annual sustainability report. It is likely published in mid-2021 on the Group's website at www.elringklinger.com (Sustainability section).

Combined Management Report of ElringKlinger AG

FOR THE FINANCIAL YEAR 2020

02

DELIVER!

Against the backdrop of the coronavirus pandemic, the 2020 financial year was marked by significant challenges, particularly for the operational areas of the company. The Purchasing and Supply Chain Management teams had to take a highly flexible approach when reacting to the associated changes. Benefiting from these efforts, ElringKlinger completed the year with virtually no disruptions – despite many bottlenecks in the supply chain. You can find out how this was achieved by reading »Deliver!« in our »pulse« magazine.

Overview of ElringKlinger's Activities and Structure

The ElringKlinger Group is a global, independent technology company whose focus is on developing and producing components for the vehicle industry. Drawing on its far-reaching capabilities as an innovator, ElringKlinger is helping to shape the future of mobility in an effort to reduce emissions, advance new drive technologies, and bring greater efficiency to conventional mobility.

Company profile

ElringKlinger has positioned itself as a global technology group. Its emphasis is on the development, industrial-scale series production, and distribution of components, modules, and systems used in the automobile sector. The company is channeling its innovatory abilities into solutions designed to deliver sustainable and climate-neutral mobility. Employing around 9,700[1] people, the Group has established a presence at 45 locations worldwide. In the 2020 financial year, ElringKlinger generated revenue of EUR 1.5 billion (2019: EUR 1.7 billion). The company, whose history stretches back to 1879, is headquartered in Dettingen/Erms, Germany.

Its product portfolio targeted at the vehicle industry consists of components for the drivetrain and body of passenger cars and commercial vehicles. This encompasses battery parts and systems, fuel cell* components and modules, lightweighting concepts, sealing technology, and shielding systems. The Group's customer base includes many of the world's automobile and engine manufacturers. Marketed under the "Elring – Das Original" brand, ElringKlinger also supplies an extensive range of spare parts. The Engineered Plastics segment offers a broad range of products engineered from high-performance plastics for various industrial sectors. In summary, the Group's operating activities are represented primarily by the segments Original Equipment, Aftermarket, and Engineered Plastics.

Business model and core competencies

The trend toward sustainable and safe mobility is reflected in the company's scope of products and services. Focusing on opportunities arising from the far-reaching changes currently seen within the industry, ElringKlinger is actively supporting general efforts to reduce emissions. Newly developed products are targeted at modern drive systems or relate to areas of the vehicle that are drivetrain-independent. In strategic terms, ElringKlinger is focused on four areas: e-mobility, lightweighting, established forms of mobility, and non-automotive applications. Within the long-standing fields of business encompassing sealing systems, plastic housing modules, and shielding systems, ElringKlinger has honed its skills as a technological innovator and carved out a solid market position over a period spanning several decades. Without neglecting this mainstay, the Group is taking advantage of its expertise in these areas to sharpen the focus of its portfolio on e-mobility and applications in the non-automotive sector. In particular, ElringKlinger has been pushing ahead with R&D in battery and fuel cell technology, charting an important route for the development, manufacture, and marketing of fuel cell products in the financial year under review (cf. "Significant Events"). Within the area of lightweight construction, ElringKlinger offers components made of modern materials that meet stringent requirements in regard to functionality, safety, stability, and environmental compatibility for vehicles of all drive system categories.

Among ElringKlinger's core competencies are extensive know-how relating to materials and processes in the field of metal and plastics processing as well as expertise when it comes to engineering tools for efficient series production. This includes high-precision metal processing, encompassing stamping, embossing, and coating, as well as a proven track record in plastic injection-molding. Within the Engineered Plastics segment, ElringKlinger can draw on extensive

[1] Unless otherwise stated, the data and figures presented in this section relate to the end of the reporting period (Dec. 31, 2020) or the 2020 financial year.

materials, applications, and processing expertise for high-performance engineered plastics.

Economic and legal factors

Demand for products in the Original Equipment segment is closely linked to global vehicle production trends, which in turn are influenced by sales markets and the economy as a whole. The individual economic factors include the employment situation and purchasing power in the various regions, consumer behavior, fuel prices, and government subsidies.

Regulations governing climate protection are considered to be a key influencing factor in terms of legislation. Due to ever-stricter emission standards, markets have seen growing demand for climate-friendly vehicle concepts. International trading conditions and the customs policies of individual countries can also have an impact on business development.

Group structure and organization

The parent company of the Group is ElringKlinger AG, which has its registered office in Dettingen/Erms. It is the largest operating Group company in respect of revenue and production volume and also performs Group-wide management tasks. In addition to strategic management, it is responsible for the central functions of Purchasing, IT, Communication, Finance, Legal Affairs, and Human Resources. To a large extent, sales activities as well as research and development are also concentrated within the parent company. The dual role of the parent company is also reflected in its financing function for the affiliated companies.

The Management Board of ElringKlinger AG consists of four members. The responsibilities of the Management Board are divided into the areas of accountability of the CEO, the CFO, the COO, and the CTO.

As of December 31, 2020, the ElringKlinger Group comprised 39 fully consolidated companies in 21 countries (cf. Notes, "Scope of Consolidation").

Sales markets and locations

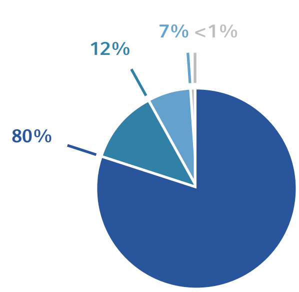
ElringKlinger has manufacturing sites in all of the world's key vehicle markets. The Group operates at 45 locations around the globe – ElringKlinger products are manufactured at 39 of these sites. Calculated on the basis of revenue, Europe ranks as the most important sales region. It accounts for 52.6% of Group revenue, followed by North America (24.8% revenue share) and Asia-Pacific (18.8% revenue share).

In the majority of cases ElringKlinger holds a Tier 1* supplier position within the automotive industry value chain. This means that it maintains a direct line of contact with vehicle and engine manufacturers. Within the Engineered Plastics segment, which boasts a wide range of products, ElringKlinger operates as a supplier to various branches of industry.

Segments and business units

The ElringKlinger Group's operating business is divided into four segments: Original Equipment, Aftermarket, Engineered Plastics, and Other. Effective from the 2020 financial year, the "Services" and "Industrial Parks" segments previously presented as separate items have been combined within the newly created segment of "Other" due to their minor significance within the Group. The segments

Group revenue by segment 2020



	in EUR million	(previous year)
Original Equipment Car, truck, and engine manufacturers, automotive suppliers, non-automotive	**1,186**	(1,423)
Aftermarket Independent aftermarket business	**182**	(173)
Engineered Plastics Vehicle industry, mechanical engineering, medical technology	**108**	(118)
Other Unspecified industries	**4**	(14)

* Cf. glossary

specified above also constitute the reportable segments under IFRS*.

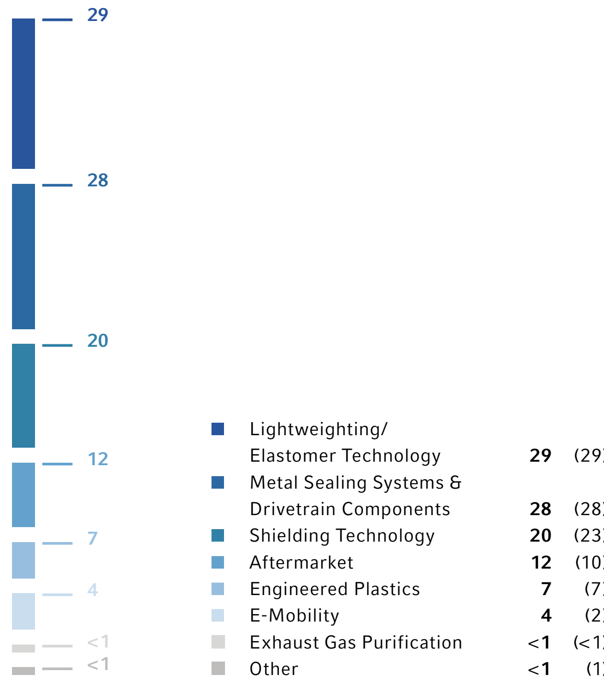
Within the **Original Equipment** segment, ElringKlinger develops, manufactures, and sells products and assemblies destined for the automotive industry. It is subdivided into the five business units Metal Sealing Systems & Drivetrain Components[1], Lightweighting/Elastomer Technology, Shielding Technology, E-Mobility, and Exhaust Gas Purification.

In the **Aftermarket** segment, ElringKlinger offers an extensive range of gaskets, gasket sets, and service parts for the repair of engines, transmissions, exhaust systems, and auxiliary units in cars and commercial vehicles. They are marketed under the "Elring – Das Original" brand. The customer base within the Aftermarket segment covers a global network of wholesalers and major group purchasing organizations. Based on revenue, the principal markets are Western and Eastern Europe, although both the Middle East and North Africa are also considered key sales regions. ElringKlinger has been expanding its sales activities in North America and China in recent years.

Within the **Engineered Plastics** segment, ElringKlinger develops, manufactures, and markets a wide range of customized products made of various plastics. Revenue is attributable primarily to sales within the mechanical engineering sector and the medical, chemical, and energy industries as well as the vehicle industry. ElringKlinger is pushing ahead with efforts to expand its business in this segment at an international level and also operates production sites in the United States and China.

As from the 2020 financial year, the segment referred to as **Other** comprises the activities of the former Services and Industrial Parks segments. With a share of 0.3% of Group revenue, it is of subordinate importance. Services include the operation of state-of-the-art engine test benches and measuring equipment for tests on engines, transmissions, and exhaust systems. The segment's customer base includes both vehicle manufacturers and automotive suppliers. This segment also includes logistics services for aftermarket sales and the catering service of a Group subsidiary.

Group revenue by business unit* 2020
(previous year) in %



* Presentation supplemented by the segments Aftermarket, Engineered Plastics, and Other

Business units in the Original Equipment segment

The ElringKlinger Group's strategy is aimed at developing and producing components for all types of drive system, whether for vehicles powered by combustion engines or by electric motors. The business unit organization has to ensure that existing competencies are available across all areas as needed and that synergies are exploited. It is with this in mind that ElringKlinger created the new business unit **Metal Sealing Systems & Drivetrain Components** effective from October 1, 2020. Previously operating as independent business units, Cylinder-head Gaskets and Specialty Gaskets were transferred to this new unit. The product portfolio managed within this business unit includes a broad range of gaskets for various locations in the vehicle, including batteries and electric motors as well as transmission control plates and complex formed parts engineered from sheet metal. It

[1] Effective from October 1, 2020, the former business units Cylinder-head Gaskets and Specialty Gaskets were merged into the Metal Sealing Systems & Drivetrain Components business unit.

also includes metallic cylinder-head gaskets as one of ElringKlinger's traditional fields of business.

The portfolio of the **Lightweighting/Elastomer Technology** business unit encompasses thermoplastics for drivetrain, body, and underbody applications. Hybrid technology, i. e., the combination of different materials such as plastic and metal in one product and manufactured in a single tool sequence, also forms an integral part of operations in this business unit. A variety of manufacturing processes and numerous materials or material-specific innovations provide the basis for tailor-made solutions with high functional integration and/or weight savings. Due to the trend toward lightweight construction within the automotive industry, this business unit offers significant growth potential.

The **Shielding Technology** business unit develops and produces thermal, acoustic, and aerodynamic shielding systems. They handle a wide range of tasks relating to temperature and acoustic management in modern motor vehicles, in addition to contributing to an aerodynamic design of the vehicle underbody. For e-mobility applications, the systems may also include electromagnetic shielding functions. ElringKlinger offers customized shielding packages for the entire vehicle – from the engine to underbody and exhaust tract.

The **E-Mobility** business unit offers the key technologies currently needed when it comes to drive system electrification: ElringKlinger can draw on many years of R&D expertise relating to battery and fuel cell technology and is already set up for series production. Intensive research and development activities and significant investments, e.g., in the construction of a technology center at the Dettingen/Erms site, have contributed to this in recent years. In 2020, ElringKlinger entered into several cooperation agreements (cf. "Significant Events") in the field of fuel cell technology for the purpose of taking it to the next level, in addition to accelerating production and marketing. Furthermore, the E-Mobility portfolio includes complete electric drive units.

Group activities within the **Exhaust Gas Purification** business unit are mainly restricted to the production of components on the basis of contract manufacturing.

Internal Control Criteria

ElringKlinger regularly compiles key ratios and evaluates company-specific leading indicators for the purpose of managing both the Group and the Group companies. Financial indicators form an important basis with regard to governance, but non-financial performance indicators are also taken into account in the planning and management process. Economic forecasts and sector-specific developments represent further information that is of relevance to corporate management.

Financial control criteria

The key financial indicators used within the ElringKlinger Group and the parent company ElringKlinger AG are sales revenue, earnings before interest and taxes (EBIT*), and return on capital employed (ROCE*). The parent company is managed on the basis of IFRS* due to its integration into the Group. Sales revenue and EBIT are budgeted, calculated, and continually monitored for the Group and the individual Group companies as well as for the four reportable segments and the respective business units. Variable remuneration for the managerial level directly below the Management Board is generally linked to the level of target attainment.

* Cf. glossary

Key financial control criteria of the ElringKlinger Group

	Guidance 2020[1]		Actual 2020	2019	2018	2017	2016
Revenue	Approximately at global market level (assumption market decline 4%)[2]	(in EUR million)	1,480.4[3]	1,727.0	1,699.0	1,664.0	1,557.4
EBIT[4]	Margin approximately at previous year's level	(in EUR million)	27.7	63.2	100.2	141.8	140.4
		Margin:	1.9%	3.7%	5.9%	8.5%	9.0%
ROCE	Slight year-on-year improvement		1.7%	3.4%	5.5%	8.2%	8.7%
Operating free cash flow	Positive in double-digit million euro range	(in EUR million)	164.7	175.8	-86.2	-66.6	-3.8
Equity ratio	40 to 50% of total assets		41.4%	41.5%	42.8%	44.0%	47.2%
Net debt/EBITDA	Year-on-year improvement		2.5	3.3	3.7	2.7	2.3

[1] Original guidance as per 2019 annual report; adjustments made during the 2020 financial year are not presented.
[2] Revenue guidance refers to organic growth (adjusted for currency and M&A effects)
[3] Revenue reported; revenue adjusted for effects of currencies and acquisitions (organic): EUR 1,525.2 million (-11.7%/market decline 16.1%)
[4] EBIT up to 2019 adjusted for depreciation/amortization relating to purchase price allocation (2019: EUR 1.9 million); 2020 discontinuation of adjusted presentation (2020: EUR 0.3 million)

As an indicator, ROCE refers to the return on capital employed. Illustrating how high the return on capital employed is, it is calculated by putting EBIT in relation to capital employed. In this context, ElringKlinger uses average capital employed as a basis of calculation. This includes shareholders' equity, financial liabilities, and provisions for pensions. In the 2020 financial year, the ElringKlinger Group recorded ROCE of 1.7% (2019: 3.4%). ElringKlinger had initially forecast a slight year-on-year improvement in this indicator for 2020. Since the beginning of May, however, its projections point to a deterioration in ROCE.

Calculating ROCE for the Group

in EUR million

EBIT	27.7	
	Dec. 31, 2020	Dec. 31, 2019
Equity	812.9	891.2
Financial liabilities	597.2	730.7
Provisions for pensions	156.9	148.2
Total	**1,567.0**	**1,770.1**
Average capital employed	**1,668.6**	
ROCE = EBIT/average capital employed	**1.7%**	

In addition, the key indicators "operating free cash flow" and "equity ratio" are of significance to the Group and the parent company, while "net debt/EBITDA" is of importance at a Group level.

Operating free cash flow* encompasses cash flow from operating activities and from investing activities, adjusted for cash flow in respect of acquisitions, divestments, and financial assets.

The table presented here lists the key financial control criteria and several other control criteria used within the ElringKlinger Group.

Non-financial control criteria

ElringKlinger also uses non-financial indicators for corporate management purposes. They include personnel, quality, and environmental indicators, particularly CO_2 emissions and energy consumption. Further details can be found in the combined non-financial report, which will be published by April 30 for the preceding financial year and can be accessed on the Group's website at www.elringklinger.com (Sustainability section).

Company- and market-specific leading indicators

Data relating to order intake and order backlog are to be seen as important company-specific leading indicators for the purpose of estimating the likely route taken by revenue. These indicators are monitored continuously and form the basis for the forecast review of the respective remaining year as well as the business plan to be prepared annually. Revenue budgeting and forecasting are based on planned quantities requested by customers as part of their scheduling less a safety margin and agreed product prices. As market-specific leading indicators, forecasts of vehicle demand and production as well as potential market price risks arising from exchange rate movements, changes in interest rates, and increases in the cost of materials are also monitored.

Research and Development

Ever stricter directives on emissions and government incentives to buy vehicles with alternative drive systems are leading to a huge shift in patterns of mobility. ElringKlinger has a long track record spanning many years of developing sustainable mobility solutions that help its customers reduce their emissions. In 2020, the Group's research and development activities were again heavily geared towards battery and fuel cell technology.

Research and development ratio at 5.1%

The ElringKlinger Group has established a strong profile in the areas of technology and innovation. With a constant flow of projects to adapt or create new products in both its newer E-Mobility unit and longer-established business units such as Metal Sealing Systems & Drivetrain Components and Shielding Technology and Lightweighting/Elastomer Technology, ElringKlinger is highly focused on the search for sustainable mobility solutions. In 2020, as in previous years, the main thrust of research and development (R&D) was on translating existing know-how into new applications for both battery-electric and hydrogen-based drive systems. In this context, third-party services were also used, such as testing services in the area of fuel cell* stacks. The company's R&D activities are highly centralized to avoid any loss of expertise. For this reason, the parent company has concentrated its development activities both in Germany – at its own sites and that of its subsidiary ElringKlinger Kunststofftechnik GmbH – and at the Group's US plant in Southfield, Michigan. ElringKlinger built up additional know-how during the year under review, especially in the field of battery and fuel cell technology. As a result, the number of employees working in R&D as of December 31, 2020, stood at 623, compared with the 2019 year-end figure of 611.

In 2020, R&D spending (including capitalized development costs) came to EUR 76.1 million (2019: EUR 80.8 million). This corresponds to an R&D ratio of 5.1% (2019: 4.7%), which was thus within the target range of around 5 to 6% (including capitalized development costs). Out of this total, the amount capitalized was EUR 12.4 million (2019: EUR 16.7 million), giving a capitalization ratio of 16.2% (2019: 20.7%). Amortization of capitalized development costs amounted to EUR 12.8 million in the financial year under review (2019: EUR 5.7 million).

ElringKlinger always seeks legal protection for new developments at both product and process level. The centralized patents department is tasked with protecting the company's technological expertise and intellectual property rights. In 2020, it applied for 86 new patents (2019: 81), the majority in strategic fields of the future.

Adapting traditional know-how for the future

Alongside its more established combustion engine products, ElringKlinger offers a wide range of solutions for alternative drive technologies such as batteries and fuel cells. Given the view of industry experts that the market for ICE vehicles will only decline gradually as demand for alternative drive systems picks up, the Group's portfolio is designed to meet the full spectrum of demand. Consequently, ElringKlinger is working hard to optimize the combustion engine and achieve further efficiency gains. At the same time, it is developing solutions based on battery and fuel cell technology to help minimize the emissions from a new generation of vehicles. In addition, there are many other areas of use in the battery and fuel cell sector that go beyond pure vehicle applications.

Key R&D figures

		2020	2019
R&D costs[1]	(in EUR million)	76.1	80.8
R&D ratio[1]	(in %)	5.1	4.7
Capitalization ratio[2]	(in %)	16.2	20.7

[1] Including capitalized development costs
[2] Capitalized development costs as a proportion of total R&D costs, including capitalized development costs

* Cf. glossary

As well as engine components, ElringKlinger's Lightweighting unit makes structural parts for the vehicle body. Looking ahead, the Group has identified the production of structural components as one of the strategic fields of the future since they are not dependent on a given drive technology.

In 2020, products designed for the company's strategic markets of the future – battery, fuel cells, electric drive units, and lightweight structural components – accounted for around 11% of total revenue (2019: around 8%), largely mirroring the ratio of new to conventional types of powertrain within the global vehicle market.

Wide-ranging activities in the field of new drive technologies

With regard to alternative drive systems, ElringKlinger has been researching and developing components in the area of fuel cell technology for some 20 years and has been supplying battery components at series production level for around 10 years. It does this by adapting the skills and expertise it has acquired in researching, developing, and manufacturing components for conventional drive technologies to the requirements of new mobility systems and then subjecting its results to a continuous process of refinement.

In the last year, on this basis, ElringKlinger took some important steps towards the production of fuel cell components and stacks on an industrial scale. Overall, in terms of fuel cell technology, ElringKlinger's development activities were again concentrated on the low-temperature fuel cell PEM (Proton Exchange Membrane), which is designed for mobile applications. The first step is to build a presence above all in the commercial vehicle sector and in distribution transport markets (so-called light commercial vehicles), as it is here that the full benefits of the technology are most evident in terms of applications and cost-savings. With industrial production in sight, development work continued on the NM12 series of fuel cell stacks*, which is particularly well suited to commercial vehicle applications on account of its power output characteristics. The target performance range was confirmed in every respect. At the same time, designs for the NM5-evo series were finalized to prepare the ground for larger-volume production at industrial scale.

The NM5-evo series, which is particularly well adapted for use as a range extender in light commercial vehicles, was successfully integrated into the systems of ElringKlinger's Austrian subsidiary. Again with a view to future industrialization in this area, the company's development activities included work to procure additional tools and series-production equipment. These make it possible to trace back all stacks delivered to customers, even in fully automated large-volume production, to ensure that the company is able to meet stringent quality requirements and that every step is reproducible.

In the last few years, ElringKlinger has established itself as an e-mobility supplier through its series production of cell contact systems* for lithium-ion batteries. More recently, the Group has taken another step forward in this area and now supplies modules and complete battery systems as well as components. That includes two large orders for battery systems, one with a prismatic and the other with a cylindrical cell architecture. Consequently, in 2020, ElringKlinger's development activities in this field were primarily focused on driving forward industrial production. The Group also continued development work on cell housings and their components. The company submitted a request to participate in a second IPCEI (Important Project of Common European Interest) on battery technology, the goal of which is to establish a competitive, innovative, and sustainable battery value chain in Europe. ElringKlinger was given the go-ahead after the end of 2020 financial year in January 2021.

Back in 2017, ElringKlinger forged a strategic partnership with the engineering specialist hofer. The company acquired a minority stake in hofer AG but is also a majority shareholder in joint production subsidiaries. While hofer's contribution to joint projects lies in its wide-ranging know-how in the field of electric drives, ElringKlinger's role is to provide expertise in the industrialization of series-production orders for customers. During the year under review, preparations were made for series production of new orders at various Group locations in Germany and internationally, with the result that production can now commence, for example, at ElringKlinger's UK subsidiary.

Metal Sealing Systems & Drivetrain Components: innovative solutions for both conventional and new drive technologies

ElringKlinger has set up a new Metal Sealing Systems & Drivetrain Components business unit combining the development expertise of two former units, Cylinder-head Gaskets and Specialty Gaskets. With regard to sealing systems for ICEs, the main focus of research and development work in 2020, as in previous years, was on standardization and design optimization in order to make them even more cost-efficient.

A further objective is to transfer the Group's component sealing expertise to new vehicle drive concepts. Examples of this knowledge transfer include metal gasket systems for electric motor housings with specially designed coatings that offer greater electromagnetic shielding and the integration of high-temperature sealing materials developed by the Group into solid-oxide fuel-cell (SOFC*) systems.

The third main focus in 2020 was on applying ElringKlinger's existing core specialisms to the development of new product groups. Here, for example, the Group applied its expertise in coating and punching thin metal sheets and in bonding components to the development of metal assemblies for the rotors and stators used in electric motors. As well as making production more efficient, these design improvements reduce losses inside the electric motor. In another project, the Group drew on its expertise in the precision embossing and fine-cutting of aluminum sheets to develop covers for lithium-ion cells incorporating an embossed bursting element. The purpose of the integrated bursting element is to save components and processing steps.

Shielding Technology: enhanced functionality, materials know-how, and active shielding

Demand for customized shielding systems has been growing rapidly for many years. This is because tightly packed units, more compact engines, increased levels of turbocharging, and minimized cooling air flows have led to ever higher temperatures in the engine compartment, underbody area, and exhaust tract.

In 2020, ElringKlinger's development activities in the Shielding Technology unit again ranged across the entire system. Acoustic engineering elements were added to thermal shielding systems, not only to minimize noise levels but also with a view to optimizing the acoustic behavior of certain applications. Another key area of development was mechanical decoupling, i.e., designing mechanical dampening elements that can specifically reduce operational strain on shielding components. Both here and in other applications, the choice of materials is highly relevant. With this in mind, ElringKlinger focused on raising awareness of material selection and on continuous refinement in order to make the shielding system as a whole more efficient.

Active shielding components can help to reduce the emissions of ICE vehicles by actively managing the operating temperature in the exhaust tract so that exhaust gas purification systems can be activated more rapidly. In the year under review, the company's development units confirmed the functionality and efficiency of these active shielding components in a series of test runs with several end customers. The tests showed that NO_X emissions can be reduced by a significant margin of over 50% in series-production exhaust systems that meet the EU6 standard using just a fraction of their available recuperation potential. Reductions are achievable for both customized solutions and retrofits since ElringKlinger's active shielding components can generally be adapted to existing exhaust system geometries.

Lightweighting/Elastomer Technology: plastics know-how

ElringKlinger has been developing innovative plastic solutions to replace conventional metal cylinder-head covers and oil pans for almost two decades. As well as providing additional functionality, e.g., an oil separation system, plastic components reduce the vehicle's overall weight. In turn, this reduces fuel and energy consumption and therefore cuts CO_2 emissions. Less weight also means less tire abrasion.

* Cf. glossary

After translating its ideas for the engine into actual solutions, the Group harnessed new tool technologies to identify areas of the vehicle body where hybrid plastic-metal components could replace conventional metal-only parts. In 2015, it began series production of cockpit cross-car beams* and front-end carriers* and adapters for a premium German car maker and has since received other orders. In the last financial year, the previous design was refined with a view to providing solutions that meet the complex requirements of customers and optimizing their cost-benefit profile. In this product group, gearing up to large-volume production despite short development cycles requires a great deal of design experience and expertise, together with the use of computer-assisted stress simulation.

In 2020, ElringKlinger adapted some of its plastic modules in order to make use of its existing know-how when handling large-volume orders for ICE applications. The unit's R&D team also drew on its process, materials, and tooling expertise to develop functional plastic modules for customers in the e-mobility sector, e.g., for components that conduct coolant or oil.

The protective solution devised by ElringKlinger – sandwich structures with outer layers containing a high proportion of continuous filament glass fibers – can be used not only for vehicle batteries but also outside the automotive industry. Compared with metal components, the potential benefits of this solution in terms of strength, weight-saving, and thermal insulation were confirmed in numerous and in some cases very different testing regimes.

Turning to sealing technology, the unit refined its metal-elastomer cylinder-head gaskets for use in trucks. In 2020, as part of a company-wide project involving teams working on materials development and production/tooling technology, the unit also expanded its design and materials portfolio. This helped to develop complex metal-elastomer gaskets for various battery projects on behalf of European OEMs. In the fuel cell business, too, this newly acquired expertise was put to good use developing gasket solutions for fuel cell stacks.

Engineered Plastics: broad range of potential applications

All work in the Engineered Plastics segment revolves around materials and their properties. The benefits of using high-performance plastics include a high level of chemical and thermal stability as well as manufacturing precision. As materials with these properties can be adapted for use in numerous industrial applications, the Group's development activities remain focused on key trends in the sectors represented by its customers. As a result, the company benefits not only from the shift toward e-mobility in the automotive sector but also from the trends towards miniaturization in medical technology and towards sensor technology in the field of mechanical engineering.

In 2020, as in previous years, one of the Engineered Plastic segment's priorities was to design highly flexible hoses for the medical life sciences sector. These hoses are made of fluoropolymer materials that allow for a very low bend radius. Other development projects included large dynamic gaskets with a diameter of more than two meters for various offshore applications. The segment also focused on technical refinements to highly efficient heat exchangers for use in the semiconductor industry and in geothermal energy applications. Alongside these developments, the Group installed a series of testing stations specially designed for the E-Mobility unit and now used specifically to validate fast-rotating applications.

Macroeconomic Conditions and Business Environment

The global economy continued to be dominated to a large extent by the effects of the coronavirus pandemic in 2020. In response to the global spread of the virus, many governments introduced state-managed protective measures in the spring of 2020, which precipitated a severe economic slump as early as the second quarter of the year, particularly in Europe and North America. These restrictions were subsequently lifted to some extent and both governments and central banks pressed ahead with far-reaching supportive measures centered around economic and fiscal policy. Against this backdrop, markets began to recover strongly in the third quarter. In the fourth quarter, renewed restrictions in response to a second wave of infection had a dampening effect on this upward trend.

In financial terms, 2020 was influenced largely by the economic impact of the coronavirus pandemic. According to data published by the International Monetary Fund (IMF), the gross domestic product (GDP) stood at -3.5%. By contrast, the IMF's outlook presented in January 2020 had pointed to slightly stronger growth of 3.3% compared to 2019 (2.8%).

During the first quarter of 2020, Covid-19* gradually spread around the globe. Over the course of the second quarter of 2020, national protective measures in the form of restrictions aimed at social and business activities (lockdowns) led to an economic slump of unprecedented proportions in many regions of the world. These containment measures were subsequently lifted on a step-by-step basis. In parallel, rescue packages were quickly put in place by governments. As a result of these action plans, in conjunction with the highly expansive monetary policy adopted by central banks, the global economy had managed to recover markedly by the fall of 2020. However, with the exception of China, whose economy was quick to return to its normal level, the respective economies failed to emulate their pre-crisis performance. In addition to the impact of the pandemic, economic activity was also influenced by the signing of the

GDP growth rates

Year-on-year change (in %)	2019	2020	2020 Q1	2020 Q2	2020 Q3	2020 Q4
World	**2.6**	**-3.7***				
Advanced economies	1.6	-5.2				
Emerging and developing countries	4.0	-1.6				
Eurozone	1.3	-7.3	-3.2	-14.7	-4.3	-7.1
Germany	0.6	-5.7	-2.1	-11.2	-4.0	-5.4
USA	2.2	-3.4	0.3	-9.0	-2.9	-1.9
Brazil	1.4	-4.2	-0.3	-10.9	-3.9	-1.7
China	6.1	2.3	-6.8	3.2	4.9	6.2
India	4.9	-8.0	3.1	-23.9	-7.5	-4.2
Japan	0.3	-5.3	-2.0	-10.3	-5.7	-3.4

Source: HSBC (Jan. 2021)
* IMF (Jan: 2021): 3.5%

* Cf. glossary

Light vehicle production

	Million units		Year-on-year change				
Region	2019	2020	Year	2020 Q1	2020 Q2	2020 Q3	2020 Q4
Europe[1]	21.2	16.6	-21.6%	-17%	-60%	-7%	2%
China	24.7	23.6	-4.4%	-46%	11%	11%	6%
Japan/Korea	13.1	11.2	-14.5%	-9%	-40%	-7%	0%
Middle East & Africa	2.0	1.8	-12.2%	-8%	-38%	-4%	1%
North America	16.3	13.0	-20.2%	-11%	-68%	0%	0%
South America	3.3	2.2	-31.6%	-17%	-82%	-22%	0%
South Asia	8.4	6.2	-26.7%	-18%	-78%	-20%	9%
World	**89.0**	**74.6**	**-16.1%**	**-22%**	**-43%**	**-2%**	**3%**

Source: IHS (Feb. 2021)
[1] Incl. Russia

phase-one trade deal between the USA and China in January and the sharp temporary drop in the price of oil in the second quarter as well as the conclusion of the Brexit agreement and the change of government in the United States.

Auto markets down sharply in 2020 amid Covid-19 crisis

Overall, 2020 proved to be an exceptionally challenging year for the automobile industry. Amid the coronavirus-induced crisis, vehicle markets slumped heavily in the first half of the year. This downturn was partially offset by the at times dynamic market recovery seen in the third quarter of 2020 and a further upward trend that lasted until the end of the year. In total, global vehicle production was down by 16.1% (2019: -6.0%) at 74.6 million light vehicles (passenger cars and light commercial vehicles).

The decline in production output and market sales moved along different lines in terms of regional impact and timing. China, which saw the first plant closures by vehicle manufacturers in February, returned to more normal levels as early as the second quarter. In parallel with the spread of the virus around the globe and the associated containment measures implemented by governments, further interruptions to production and plant closures at vehicle manufacturers followed at an international level from March onwards. At times, car sales came to a complete standstill. After bottoming out in the second quarter of 2020, the automobile market picked up significantly in the second half of the year.

Of the three major vehicle regions, Europe saw the largest decline in 2020 at 21.6%. In North America, annual production was down by 20.2% year on year, while China, the world's largest individual market, saw output fall by 4.4%.

The situation was similar within the sales markets. In Europe (EU27 & EFTA* & UK), new car registrations stood at close to 12.0 million units – almost a quarter down (-24.3%) on the prior-year figure. The five largest individual markets recorded double-digit percentage declines: Germany (-19.1% to 2.9 million units), France (-25.5%), United Kingdom (-29.4%), Italy (-27.9%), and Spain (-32.3%). In the United States, meanwhile, new light vehicle registrations totaled 14.5 million, a year-on-year decline of 14.7%. While the European market was still below the previous year's level in December, the United States recorded single-digit growth again. The Chinese market largely made up for the dramatic slump in the first quarter of 2020, reporting a 6.1% decline in new passenger car registrations.

Increasing trend toward e-mobility

The market has seen growing demand for electric vehicles recently, although the latter still occupied a subordinate position with regard to their percentage of overall production output in 2020. Government incentive measures and existing infrastructures for vehicle recharging continue to have a significant impact on demand in the individual regions. While in Germany, for example, the increase in subsidies under the government's Covid-19 stimulus package was reflected in a sharp rise in registrations of electric cars, growth slowed in China and the United States, where incentive programs were scaled back. The largest individual markets in respect of electric cars already registered are China and the US.

Around 2.3 million electric vehicles were produced worldwide in 2020. Their share of total production was around 3%. Europe saw the most pronounced growth rate, with an increase of 85% to around 600,000 units. This region thus moved into second place after China, whose production figure in 2020 was just under one million e-cars – slightly below the previous year's level. In North America, electric vehicle production was on a par with the previous year at around 410,000 vehicles.

Commercial vehicle markets in the doldrums

Impacted by the effects of the coronavirus pandemic, global commercial vehicle markets were on a downward trend in 2020. Despite the increase in new registrations of heavy commercial vehicles (>16 t) in Europe (EU & EFTA & UK) in the last two months of 2020, the year as a whole saw a decline of 28.4% to around 230,000 vehicles. The North American truck market (Class 8) also remained far behind the previous year with a decline of 30.2% to 235,000 units.

Significant Events

Alongside the effects of the coronavirus pandemic, the significant events for the Group in the 2020 financial year included the new elections to the Supervisory Board and, in particular, the agreements relating to two strategic partnerships with the aircraft manufacturer Airbus and the French automotive supplier Plastic Omnium.

Coronavirus pandemic impacts on business

At the beginning of the year, the coronavirus spread first in China and subsequently worldwide in the form of a pandemic. This prompted government containment measures at an international level. Initially, this led to extended New Year's holidays at ElringKlinger's plants in China during the first quarter of 2020, followed by interruptions to production. From mid-March onward, vehicle manufacturers in Europe and subsequently in North America, too, were faced with production downtime, as a result of which ElringKlinger temporarily suspended its operations at its European and North American plants to varying degrees or adjusted output volumes downwards at the beginning of the second quarter of 2020. The sites in India and South Africa were also affected. While the situation in China quickly returned to normal, European car makers gradually ramped up production again from the end of April 2020 and North American vehicle manufacturers mainly from May onward. The economic downturn led to a noticeable decline in business at ElringKlinger, particularly in the second quarter of 2020.

Against this backdrop, ElringKlinger took advantage of the option of short-time work as a transitional instrument at its German sites as from April 1, 2020. To protect employees, travel restrictions were introduced throughout the Group and strict hygiene precautions and other measures were implemented for the purpose of avoiding physical contact to the largest extent possible. In particular, the onset of the pandemic saw ElringKlinger press ahead with mobile working by employees.

Virtual annual general meeting – Newly elected Supervisory Board

Due to the restrictions on physical contact in response to the coronavirus pandemic, the 115th annual general meeting of ElringKlinger AG was postponed from the scheduled date of May 19, 2020, to July 7, 2020, and held in a virtual format for the very first time. It included the scheduled election of the Supervisory Board members appointed by the shareholders. Prof. Hans-Ulrich Sachs stood down from the Supervisory Board. Helmut P. Merch joined the board as a new member. He and all the other existing shareholder representatives were elected by a clear majority. The employee representatives had already been elected in May and also took office upon conclusion of the annual general meeting. In this context, Olcay Zeybek, Head of Accounting at ElringKlinger AG,

* Cf. glossary

and Barbara Resch, Wage Affairs Secretary at IG Metall Baden-Württemberg, were newly appointed to the Supervisory Board. They replaced Pasquale Formisano and Nadine Boguslawski, who had left the board.

Contract extension for COO Reiner Drews

At its meeting in May 2020, the Supervisory Board extended the contract with Management Board member Reiner Drews by five years to March 31, 2026. His term of office had been scheduled to end on March 31, 2021. Since April 1, 2018, Reiner Drews has been responsible for the business units Metal Sealing Systems & Drivetrain Components, Lightweighting/Elastomer Technology, and Shielding Technology, the German plants operating within the Original Equipment segment and the corporate units Production Management and Quality & Environmental Management.

Collaboration with aircraft manufacturer Airbus in the area of fuel cell technology

On October 14, 2020, ElringKlinger AG and Airbus Operations GmbH, Hamburg, Germany, concluded an agreement covering a long-term partnership within the area of fuel cell* technology. This partnership is aimed at jointly developing and validating fuel cell stacks* suitable for aircraft use. In this context, the contracting parties founded Aerostack GmbH, Dettingen/Erms, Germany, a company in which ElringKlinger AG holds an interest of 10% and Airbus Operations GmbH an interest of 90%. The agreement stipulates that ElringKlinger shall give the new company access to its technology and supply the components required for development purposes.

ElringKlinger and Plastic Omnium form fuel cell technology alliance

On October 28, 2020, ElringKlinger AG and Plastic Omnium, a French automotive supply group based in Levallois, France, signed an agreement aimed at driving forward the joint development, production, and marketing of fuel cell stacks. Thus, the companies will be looking to make a significant contribution to CO_2-neutral mobility. ElringKlinger and Plastic Omnium are committed to establishing a leading industrial presence as global suppliers of fuel cell stacks and components for cars, commercial vehicles, buses, trucks, and other transport applications.

The new ElringKlinger subsidiary EKPO Fuel Cell Technologies GmbH, based in Dettingen/Erms, Germany, commenced its business activities subsequent to the closing of the agreement, which came into effect after the end of the reporting period on March 1, 2021. ElringKlinger AG holds a 60% interest in the company, while Plastic Omnium's stake is 40%. The company is based in Dettingen/Erms, where ElringKlinger has recently built an e-mobility technology center. For the purpose of concluding the agreement, EK Fuel Cell Technologies GmbH, which had been founded in December 2020, changed its trading name; operations relating to fuel cell technology together with the employees assigned to this area of business as well as the associated know-how and patents were transferred to this company. In turn, Plastic Omnium will invest EUR 100 million in an effort to accelerate innovation, extend marketing at a commercial level, and increase production capacity. Under the terms of the agreement, Plastic Omnium also acquired ElringKlinger Fuelcell Systems Austria GmbH, Wels, Austria, an ElringKlinger Group company specializing in fuel cell system solutions, effective from March 1, 2021.

Cooperation agreement concluded with Dutch vehicle manufacturer for fuel cell technology

On November 12, 2020, ElringKlinger AG and Dutch vehicle manufacturer VDL Bus & Coach BV also reached an agreement on a strategic partnership in the field of fuel cell technology. The cooperation agreement covers the customized development and industrialization of fuel cell stacks and systems for mobile and stationary applications. Under the terms of the agreement, the new Group company EKPO Fuel Cell Technologies GmbH took over the activities relating to this cooperation.

Sales and Earnings Performance

In 2020, the coronavirus pandemic triggered a collapse in demand throughout the world's automobile markets, which shrank by around 16% at a global level. As a result, the ElringKlinger Group also reported a decline in sales revenue for the financial year just ended. However, at around -14%, the downturn was slightly less severe compared to that seen within the market as a whole. Earnings before interest and taxes (EBIT) amounted to €27.7 million, which corresponds to an EBIT margin of 1.9%.

Group revenue impacted by coronavirus pandemic

The 2020 financial year was dominated by the effects of the coronavirus pandemic. Overall, the ElringKlinger Group generated revenue of EUR 1,480.4 million, down EUR 246.6 million or 14.3% on the previous year (2019: EUR 1,727.0 million). Currency translation contributed EUR -40.7 million or -2.4%, primarily due to the exchange rate movements of the Mexican peso and the Brazilian real, but also the Turkish lira and the US dollar. In addition, changes relating to M&A* activities in the amount of EUR -4.1 million or -0.2% have to be taken into account; they were attributable primarily to the sale of the industrial park in Hungary. Excluding these effects from exchange rate changes and M&A activities, the decline in revenue amounted to EUR 201.8 million or -11.7%. The Group thus exceeded its original forecast of performing roughly at market level in respect of organic revenue. However, the actual performance of the market as a whole was well below prior-year expectations, which had assumed a market decline in the region of at least 4%. The outlook revised in the wake of the pandemic, which was centered on slightly outperforming the market in terms of organic revenue, was also exceeded.

The actual impact of the coronavirus pandemic varied over the course of the year. In the first quarter, the virus spread mainly in China, which responded by extending the Chinese New Year's holidays and imposing travel restrictions. The situation in China returned to normal in the second quarter, although other Asian countries, such as India, continued to be affected by the coronavirus. At the end of the first quarter, by which time the virus had already evolved into a global pandemic, lockdown measures were adopted by the respective governments in Europe and subsequently, with a few weeks' delay, in North America. The momentum of recovery in these regions varied over the course of the third quarter, becoming more pronounced in the fourth quarter.

Impact on revenue in all regions

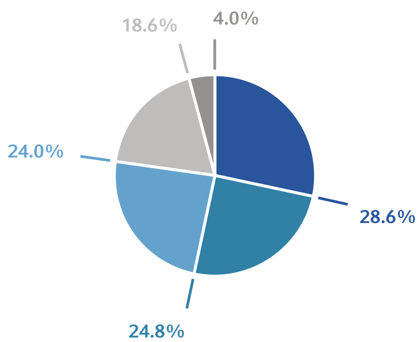
The decline in demand in the wake of the pandemic precipitated a slump in revenues in all regions, especially in the second quarter. Both in absolute and in relative terms, the downturn proved to be particularly severe in North America, at EUR -83.1 million or -18.4%. The Group generated revenue of EUR 367.7 million in this region in 2020 (2019: EUR 450.9 million), which corresponds to a revenue share

Factors influencing Group revenue

in EUR million	2020	2019	Change, absolute	Change, relative
Group revenue	**1,480.4**	**1,727.0**	**-246.6**	**-14.3%**
of which FX effects			-40.7	-2.4%
of which M&A			-4.1	-0.2%
of which organic			-201.8	-11.7%

* Cf. glossary

Group revenue by region 2020



in EUR million (previous year)

Rest of Europe	**423.4**	(494.2)
North America	**367.7**	(450.9)
Germany	**355.6**	(395.0)
Asia-Pacific	**274.8**	(310.0)
South America and Rest of the World	**58.9**	(76.9)

of 24.8% (2019: 26.1%). Adjusted for currencies, sales revenues fell by just EUR 66.0 million or 14.6%. By contrast, automobile production fell by -20.1% in this region according to data provided by IHS.

In China, meanwhile, the New Year's holidays were extended as early as the first quarter of 2020 and factories were ordered to close in an effort to contain the spread of the coronavirus. However, with the pandemic having little or no impact on other parts of Asia, the decline in revenue in Asia-Pacific was relatively modest in the first quarter. As the year progressed, the situation in this sales region reversed: China recovered quickly from the adverse effects of the first quarter, while other parts of Asia, such as India, were impacted by the pandemic in the second and third quarter. Overall, ElringKlinger generated revenue of EUR 274.8 million in this region over the course of the 2020 financial year, which corresponds to a revenue share of 18.6% (2019: 17.9%). In the previous year, the Group had recorded sales revenue of EUR 310.0 million in this region.

In the Rest of Europe, ElringKlinger's largest sales region, the structure of revenue flows over the course of the year was similar to that seen in North America. In the first quarter of 2020, the impact of the pandemic was relatively insignificant, as lockdown measures did not come into effect until the final weeks of March. Revenue plummeted in the second quarter of 2020 and subsequently recovered in the third quarter, before trending upward again in the final quarter compared to the same period a year earlier. In total, the Group generated sales revenue of EUR 423.4 million in this region during the 2020 financial year (2019: EUR 494.2 million). The share of total revenue thus remained at exactly the same level of 28.6% (2019: 28.6%).

In the region encompassing Germany, the decline in revenue during the second quarter of 2020 was less pronounced than in the regions covering North America or Rest of Europe. However, the subsequent recovery in the third quarter proved to be more sluggish. In total, the Group generated domestic revenue of EUR 355.6 million (2019: EUR 395.0 million), which represents 24.0% of Group revenue (2019: 22.9%).

In South America and Rest of the World revenues fell by EUR -18.0 million or -23.4% to EUR 58.9 million (2019: EUR 76.9 million). This decline is attributable not only to the pandemic but also to currency effects. If exchange rates had remained unchanged, the figure would have been down by just EUR 5.7 million or 7.5%. Overall, the share of Group revenue was 4.0% (2019: 4.5%).

The share of domestic revenue improved to 24.0% (2019: 22.9%), which was attributable partly to the proceeds received in the fourth quarter from a strategic partnership agreement. Correspondingly, the proportion of foreign sales amounted to 76.0% (2019: 77.1%).

Significant pandemic-induced decline in demand within Original Equipment segment

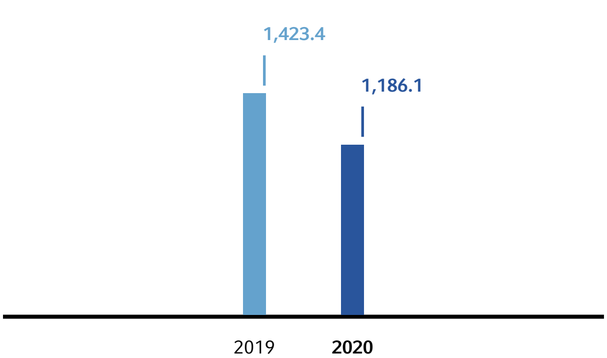
With a revenue share of 80.1% (2019: 82.4%), the Original Equipment segment constitutes the largest segment within the ElringKlinger Group. The segment generated revenue of EUR 1,186.1 million (2019: EUR 1,423.4 million), a decline of EUR 237.4 million or -16.7%. Thus, this segment performed roughly in line with the global car market as a whole, which saw a contraction in production output of 16.1%.

Within this segment, the Metal Sealing Systems & Drivetrain Components business unit, which was newly established on October 1, 2020, and comprises the two previous units of Cylinder-head Gaskets and Specialty Gaskets, was almost on a par with the segment as a whole, with revenue falling by -16.4% to EUR 410.7 million (2019: EUR 491.2 million). Lightweighting/Elastomer Technology, on the other hand, slightly outperformed the segment as a whole, recording sales revenue of EUR 422.6 million (2019: EUR 494.3 million) and a decline of just -14.5%. The Shielding Technology business unit was hit much harder, with a 27.1% downturn in revenue that took the figure to EUR 291.1 million (2019: EUR 399.2 million).

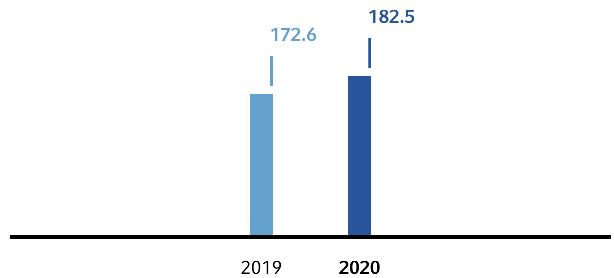
The E-Mobility business unit, which brings together the Group's activities relating to battery and fuel cell* technology as well as electric drive units, recorded buoyant revenue growth in the period under review. At EUR 54.7 million, the business unit almost doubled its revenue compared to the previous year (2019: EUR 27.1 million). This was attributable primarily to the proceeds from a partnership agreement relating to the Group's fuel cell business, which amounted to around EUR 25 million. In addition, pre-series production activities and series ramp-ups in the area of electric drive units had a positive impact on revenue generated within the E-Mobility unit. The business unit recorded negative earnings before interest and taxes in 2020. This was attributable primarily to preparations for series production in battery technology.

The Exhaust Gas Purification business unit saw a decline in revenue by EUR 3.5 million or 33.3% to EUR 6.9 million in the 2020 financial year (2019: EUR 10.4 million). Activities within this area of the business are mainly centered around the construction of housings as a component for exhaust gas purification systems.

Revenue in the Original Equipment segment
in EUR million



Revenue in the Aftermarket segment
in EUR million



Due to the sharp decline in demand in the wake of the coronavirus pandemic, the Original Equipment segment was unable to cover its fixed costs in full. Having said that, the downside effects were counteracted to some extent by the program implemented for the purpose of raising efficiency levels and instruments such as short-time work in Germany. Overall, segment earnings before interest and taxes amounted to EUR -23.7 million (2019: EUR 5.1 million). The EBIT margin* in this segment was -2.0% (2019: 0.4%).

Further growth in revenue and earnings for Aftermarket business

Despite the effects of the coronavirus pandemic and lockdowns imposed in many countries, the Aftermarket segment again saw an increase in revenue over the course of the financial year just ended. At EUR 182.5 million in 2020, it was up EUR 9.9 million or 5.7% year on year (2019: EUR 172.6 million). The segment managed to drive revenue forward in Eastern Europe, in particular, but also in the Middle East/Indian subcontinent as well as in North and South America. Revenue was only down slightly in Western Europe and Asia.

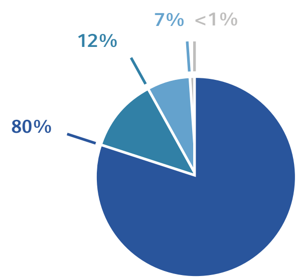
The Group-wide program aimed at efficiency enhancement also proved successful within the Aftermarket segment, in addition to lower travel and exhibition costs due to the coronavirus. Against this backdrop, segment earnings before interest and taxes amounted to EUR 39.0 million (2019: EUR 30.4 million), which corresponds to an EBIT margin of 21.4% (2019: 17.6%).

Engineered Plastics segment relatively robust against effects of pandemic

Against the backdrop of the global economic downturn, the Engineered Plastics segment recorded sales revenue of EUR 107.6 million in the 2020 financial year, which was down on the previous year (2019: EUR 117.5 million). Revenues fell by EUR 9.9 million or 8.4% as a result of the pandemic, primarily in Europe and North America, while

* Cf. glossary

Group revenue by segment 2020



in EUR million (previous year)		
Original Equipment	**1,186.1**	(1,423.4)
– Lightweighting/Elastomer Technology	**422.6**	(494.3)
– Shielding Technology	**291.1**	(399.2)
– Metal Sealing Solutions & Drivetrain Components	**410.7**	(491.2)
– E-Mobility	**54.7**	(27.1)
– Exhaust Gas Purification	**6.9**	(10.4)
– Other	**0**	(1.2)
Aftermarket	**182.5**	(172.6)
Engineered Plastics	**107.6**	(117.5)
Other	**4.3**	(13.5)

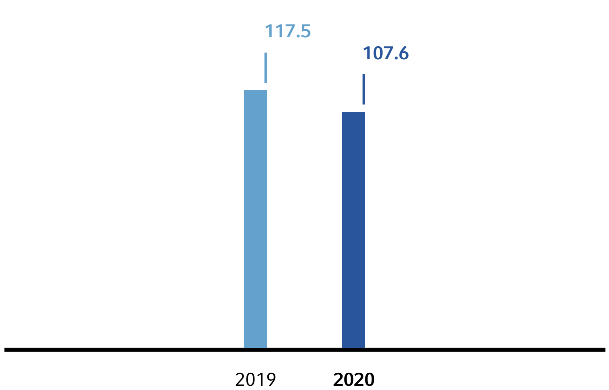
revenue generated from sales in Asia remained largely unchanged.

Despite the decline in demand from numerous sectors in the wake of the pandemic, the segment succeeded in maintaining earnings before interest and taxes at a robust level of EUR 14.0 million (2019: EUR 15.9 million). This was also attributable to savings in non-personnel and travel costs. The segment's EBIT margin was 13.0% (2019: 13.5%).

Services and Industrial Parks segments merged

Following the sale of the industrial park in Kecskemét, Hungary, at the end of 2019, the two segments Services and Industrial Parks were merged into the segment referred to as "Other" with effect from January 1, 2020. The latter generated revenue of EUR 4.3 million in the 2020 financial year (2019: EUR 13.5 million). Segment earnings before interest and taxes amounted to EUR -1.6 million. This was below the prior-year figure of EUR 9.9 million, which, however, had included a sum of EUR 8.6 million attributable to the sale of the industrial park.

Revenue in the Engineered Plastics segment
in EUR million



Efficiency enhancement program successfully on track

In the 2019 financial year, management implemented a global program aimed at raising efficiency levels to a sustainable extent throughout the Group. The first stage of this program focused primarily on streamlining costs. In parallel, two other elements in the form of a disciplined investment approach and the optimization of net working capital* were introduced for the purpose of generating positive operating free cash flow*. The latter was to be deployed in an effort to reduce net debt.

The cost savings were directed at staff and material costs as well as non-personnel costs. The fourth element was centered around price adjustments for contract renewals to current levels. The measures were also aimed at avoiding costs for special freight movements and additional shifts through process optimization, staff training, and the elimination of inefficiencies in administration and production. As in 2019, noticeable improvements in bottom-line results were again achieved in 2020.

Gross profit margin up in year of the coronavirus pandemic

Compared to sales revenue, which was down by -14.3%, the cost of sales fell by a slightly more pronounced rate of -14.7% in the 2020 financial year. The latter amounted to EUR 1,195.5 million (2019: EUR 1,401.7 million). Therefore, gross profit fell at a slower rate, down by -12.4% to EUR 284.9 million (2019: EUR 325.3 million), as a result of which the gross profit margin – at 19.2% – improved slightly compared to the previous year (2019: 18.8%) despite the impact of the pandemic. Positive factors, such as the benefits associated with instruments relating to short-time work or the proceeds from a partnership agreement in the field of fuel cells, were counteracted primarily by impairments of fixed assets in accordance with IAS 36.

The cost of materials represents a significant proportion of the cost of sales. It totaled EUR 622.7 million in the period under review, down substantially on the prior-year figure (2019: EUR 800.7 million). The year-on-year decline is attributable, on the one hand, to the sharp plunge in demand caused by the pandemic and, on the other hand, to a slight easing of commodity prices at a particularly high level. As the cost of materials fell at a more pronounced rate compared to revenue, the cost-of-materials ratio stood at 42.1% (2019: 46.4%).

The key materials needed by ElringKlinger to manufacture its products include aluminum, alloyed high-grade steels (and especially chromium-nickel alloys), carbon steel, polyamide-based polymer granules, and elastomers as well as polytetrafluoroethylene (PTFE*) in the Engineered Plastics segment. However, materials and components required for the production of battery and fuel cell systems are also becoming increasingly important. The Group uses aluminum primarily in the production of shielding parts in the Shielding Technology business unit, while high-grade steels and their alloys are used in the new Metal Sealing Systems & Drivetrain Components business unit.

In the financial year under review, the price indices for the raw materials that are of primary relevance to the Group, such as polyamide* (PA66), aluminum, or nickel, initially trended lower. However, they subsequently rose again from the end of the second quarter onward; by the end of the year, they had in some cases even risen above the level initially seen at the beginning of the year. The alloy surcharges for high-grade steels developed along very different lines as a whole, but for the most part remained at a constant level expressed in terms of their annual average.

Staff costs, which are accounted for in various functional categories of the income statement, amounted to EUR 472.1 million in the reporting year. They thus fell by 13.3% compared to the previous year (2019: EUR 544.4 million). On the one hand, the number of employees was adjusted in response to demand structures where possible, and on the other hand, the Group used instruments such as short-time work in Germany in response to measures implemented in an effort to contain the pandemic. Overall, staff costs in relation to Group revenue were only up slightly on the prior-year figure at 31.9% (2019: 31.5%).

Selling expenses fell significantly by EUR 26.4 million or 19.8% to EUR 107.0 million in 2020 (2019: EUR 133.4 million). Alongside the decline in revenue as an influencing factor, this trend clearly illustrates that the expansion, automation, and efficiency enhancement measures implemented for the purpose of addressing the issue of capacity bottlenecks at the North American plants increasingly took effect over the course of the year. In addition to staff costs, the Group was able to reduce costs for sorting and special freight movement by a significant margin in the period under review when compared to the previous year. At the same time, the reduction in travel costs as a result of the pandemic also played a role.

In parallel with the downturn in revenue, general and administrative expenses fell by 14.4% to EUR 72.6 million in the financial year just ended (2019: EUR 84.8 million).

R&D ratio within target range

Against the backdrop of the transformation process, the focus of R&D is on alternative drive technologies, i. e., activities centered around the battery and fuel cell as well as the electric drive unit in the context of the partnership with hofer AG. In the financial year under review, the Group kept its research and development costs at a level that was largely unchanged year on year – EUR 63.8 million (2019: EUR 64.1 million) – despite the pandemic-induced decline in demand. In addition, EUR 12.4 million (2019: EUR 16.7 million) in development costs were capitalized, as they met the relevant criteria for recognition. Amortization of capitalized development costs totaled EUR 12.8 million (2019: EUR 5.7 million). Taking into account development costs capitalized, the R&D ratio, i. e., R&D costs relative to Group revenue, rose to 5.1% (2019: 4.7%).

ElringKlinger received public-sector funding in the financial year under review in support of its research and development activities. This was granted in respect of research projects primarily centered around the fields of battery and fuel cell technology as well as lightweight construction. Funds granted with regard to R&D projects and recognized in profit or loss totaled EUR 3.6 million (2019: EUR 5.6 million). In parallel, the company again incurred project-related expenses at a comparable level for development work and prototyping conducted in 2020.

Other operating income amounted to EUR 9.8 million in the reporting year, which was down significantly on the prior-year figure of EUR 33.5 million. In 2019, this item had included a gain from the sale of the industrial park in Hungary in the amount of EUR 8.6 million as well as

* Cf. glossary

insurance payments and compensation for damages, which were also counterbalanced by corresponding expenses accounted for in the cost of sales at the time.

The increase in other operating expenses to EUR 23.6 million (2019: EUR 15.2 million) is attributable to various items, the most significant of which relates to allowances for accounts receivable.

Visible decline in earnings due in part to effects of pandemic

Despite the decline in demand in the wake of the coronavirus pandemic, earnings before interest, taxes, depreciation, and amortization (EBITDA*) remained solid year on year at EUR 181.5 million (2019: EUR 181.0 million). Alongside the proceeds from the fuel cell partnership, this was mainly due to instruments such as short-time work in Germany and the Group's global program aimed at raising efficiency levels. Due to impairment tests conducted in accordance with IAS 36, write-downs were up significantly year on year at EUR 153.7 million (2019: EUR 119.7 million). After deduction of depreciation and amortization, earnings before interest and taxes (EBIT) amounted to EUR 27.7 million (2019: EUR 61.2 million), which translates into a margin of 1.9% (2019: 3.5%). Taking purchase price allocations* into account, EBIT before purchase price allocation was EUR 28.1 million (2019: EUR 63.2 million), while the margin was 1.9% (2019: 3.7%). The EBIT margin before purchase price allocation thus fell short of the Group's original outlook of March 2020, which had assumed a margin for the full annual period roughly at the previous year's level.

Net finance cost up on previous year

The Group significantly reduced its financial liabilities in the course of the year. Consequently, interest expenses were also down on the prior-year figure, as a result of which the net interest result improved by a significant 18.9% compared to the previous year. The general volatility of exchange rates was reflected in the net result from currency translation. In particular, the exchange rate movements associated with the currencies of relevance to the Group led to higher foreign exchange losses. In this context, the most pronounced change was attributable to unrealized foreign exchange losses, which arise from the translation of the balance sheet items denominated in a foreign currency into EUR – as the reporting currency – at the year-end rate. In addition, the Group had to account for losses from associated companies. Ultimately, net finance costs* were substantially higher in the period under review, up by EUR 21.7 million to EUR -41.3 million (2019: EUR -19.6 million).

At EUR -13.6 million, therefore, the result before taxes was lower than in the previous year (2019: EUR 41.7 million).

Year-on-year reduction in income tax expense

Compared to the previous year, income tax expenses fell to EUR 26.4 million in 2020 (2019: EUR 36.6 million). The fact that the Group had to pay income taxes despite a pre-tax loss is due, among other things, to the tax deductibility of asset remeasurements. Against the backdrop of the coronavirus pandemic, the Group was also faced with a mixed picture with regard to profitability at the respective subsidiaries – with varying effects on taxes payable. In addition, no deferred tax assets were recognizable on losses incurred by subsidiaries.

Having deducted income tax expenses, net income stood at EUR -40.0 million (2019: EUR 5.0 million). Net income attributable to non-controlling interests fell slightly to EUR 0.8 million (2019: EUR 0.9 million). Eliminating these interests, net income attributable to the shareholders of ElringKlinger AG amounted to EUR -40.8 million (2019: EUR 4.1 million). Correspondingly, earnings per share* were down substantially year on year at EUR -0.64 (2019: EUR 0.06). As of December 31, 2020, the number of shares outstanding that were entitled to a dividend remained unchanged at 63,359,990.

Suspension of dividend

As in the previous year, the annual financial statements approved by the Supervisory Board show a net loss for the year. For the purpose of further strengthening internal financing in support of the company's transformation process, no revenue reserves were released. The annual financial statements of ElringKlinger AG, which were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB*) and are relevant for the payment of dividends, showed a net loss of EUR 11.6 million as of December 31, 2020 (2019: net loss of EUR 17.1 million). Therefore, the dividend for the 2020 financial year has been suspended. The loss will be carried forward to new account.

Financial Position

Based on an equity ratio of 41.4%, a further increase in liquidity during the financial year, and the overall structure of its assets, the financial position of the ElringKlinger Group remained robust as of December 31, 2020. Over the course of 2020, the Group continued to pursue the route taken during the 2019 financial year for the purpose of improving its key financial indicators. As a consequence, net working capital[1] was further reduced compared to the low level already recorded in 2019. In addition, the Group again managed to scale back its net debt[2] – by EUR 136.5 million to EUR 458.8 million. The net debt ratio[3] improved to 2.5, having stood at 3.3 in the previous year.

Effects of coronavirus pandemic

The decline in business seen in 2020 in the wake of the coronavirus pandemic is reflected to varying degrees in individual items of ElringKlinger's statement of financial position and cash flows*. The severe slump in demand during the second quarter is reflected in a temporary reduction in current assets, including trade receivables and inventories, as well as trade payables on the liabilities side of the balance sheet. By contrast, cash and cash equivalents increased during this period. The second half of the year saw business pick up again, as a result of which these effects can be deemed to have been offset again at the end of the financial year under review. Impairment tests performed at the end of the year necessitated the recognition of impairment losses of around EUR 24 million in total with regard to property, plant, and equipment at some of the subsidiaries within the Group.

Total assets at EUR 2 billion – Asset structure remains robust

Total assets held by the ElringKlinger Group amounted to EUR 1,963.1 million as of December 31, 2020, compared with EUR 2,146.5 million as of the end of 2019. The reduction by EUR 183.4 million reflects not only general business transactions during the period under review but also the impact of currency translation, which on the whole had a dilutive effect on the balance sheet items. The ratio of non-current to current assets remained virtually unchanged

[1] Inventories as well as trade receivables less trade payables
[2] Current and non-current financial liabilities less cash and cash equivalents and securities
[3] Net debt in relation to EBITDA (earnings before interest, taxes, depreciation, and amortization)

Key figures Financial Position

in EUR million	Dec. 31, 2020	Dec. 31, 2019
Total equity and liabilities	1,963.1	2,146.5
Equity ratio	41.4%	41.5%
Net working capital	402.8	432.6
in relation to Group revenue	27.2%	25.0%
Net debt	458.8	595.3
Net debt/EBITDA	2.5	3.3

* Cf. glossary

compared to the previous year. Non-current and current assets accounted for 61.7% (Dec. 31, 2019: 61.2%) and 38.0% (Dec. 31, 2019: 38.8%) of total assets respectively - 0.3% of the assets were accounted for as held for sale.

Within non-current assets, which had a carrying amount of EUR 1,212.2 million as of December 31, 2020 (Dec. 31, 2019: EUR 1,314.0 million), "property, plant, and equipment" represents the largest item. This item was down by EUR 103.8 million on the figure posted at the end of 2019 (EUR 1,043.7 million), with around one-third of the reduction being attributable to currency effects. In addition, the volume declined due to lower investment activity in the Group in 2020, with the result that systematic depreciation for the financial year, totaling EUR 113.9 million (2019: EUR 109.4 million), was around EUR 20 million higher than additions from investments (including leasing transactions) of EUR 92.7 million (Dec. 31, 2019: EUR 110.5 million). Furthermore, reduced expectations regarding the future earnings performance at six Group companies led to impairment losses totaling EUR 24.2 million (2019: EUR 0 million).

Intangible liabilities amounted to EUR 201.1 million at the end of 2020 (Dec. 31, 2019: EUR 208.1 million). New additions associated with internally generated development costs (EUR 12.4 million) were on a par with the corresponding amortization of EUR 12.8 million in the 2020 financial year (2019: EUR 5.7 million). As in the past, the main item within intangible assets was goodwill from previous M&A* activities with a carrying amount of EUR 161.9 million (Dec. 31, 2020: EUR 166.3 million). This item was slightly lower in the period under review, primarily as a result of currency effects and a reclassification to assets held for sale.

As of December 31, 2020, no investment property was accounted for in the consolidated statement of financial position. The item of EUR 3.3 million included in the previous year's statement of financial position comprised land and buildings at the site in Idstein, Germany, which were reclassified to property, plant, and equipment in the 2020 financial year due to the fact that they are now predominantly used by the company itself.

Financial assets were up at EUR 15.1 million at the end of the period under review, compared to EUR 3.6 million in the previous year. The year-on-year increase was attributable primarily to the financial investments accounted for in this item with regard to the acquisition of a non-controlling interest in Aerostack GmbH, Dettingen/Erms, Germany (cf. "Significant Events") as well as the non-current receivable granted in this context.

The investments in associates relate to interests in hofer AG, Nürtingen, Germany, which are accounted for using the equity method. At the end of 2020, they amounted to EUR 17.2 million (Dec. 31, 2019: EUR 23.7 million).

Further reduction in working capital

Current assets accounted for within the ElringKlinger Group fell by EUR 86.8 million year on year to EUR 745.7 million (Dec. 31, 2019: EUR 832.5 million). Inventories, which fall under this heading, decreased by EUR 41.4 million (adjusted for currency effects) to EUR 300.5 million (Dec. 31, 2019: EUR 356.5 million), having already been scaled back noticeably in the previous year. This trend reflects the success of the long-term optimization measures for working capital* (inventories and trade receivables) implemented throughout the Group. At EUR 231.2 million (Dec. 31, 2019: EUR 233.2 million), trade receivables were on a par with the previous year at the end of the reporting period.

Within the item encompassing "Other current assets," whose carrying amount was EUR 71.4 million (Dec. 31, 2019: EUR 88.7 million), tax receivables and other receivables from third parties decreased year on year.

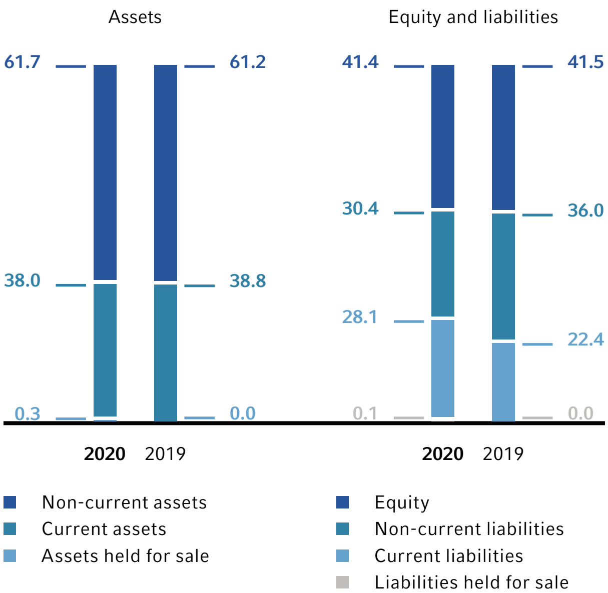
As of December 30, 2020, the ElringKlinger Group had cash and cash equivalents of EUR 127.9 million (Dec. 31, 2019: 135.5 million).

The assets and liabilities recognized as held for sale relate to items from the consolidation of the Austrian subsidiary. The company, which operates within the field of fuel cell* development, was sold to the French automotive supply group Plastic Omnium, Levallois, France, after the end of the reporting period as part of an agreement reached with the company in October 2020 (cf. "Significant Events").

Equity ratio at 41%

As of December 31, 2020, equity accounted for by the ElringKlinger Group amounted to EUR 812.9 million (Dec. 31, 2019: EUR 891.2 million). The equity ratio of 41.4% (Dec. 31, 2019: 41.5%) remains within the range of 40% to 50% targeted by management. In the 2020 financial year, the net loss of EUR - 40.0 million for the period as well as the effects from currency translation of EUR - 29.5 million and from the remeasurement of pension commitments of EUR -7.4 million were recognized in equity.

Structure of the ElringKlinger Group's statement of financial position
As at December, 31
in %



At EUR 1.7 million, the dividend distribution for the previous year was attributable solely to non-controlling interests.

The carrying amount of pension provisions at the end of 2020 was EUR 156.9 million (Dec. 31, 2019: EUR 148.2 million). The increase of EUR 8.7 million was mainly due to changes in parameters on which the regular revaluation of future obligations as of the reporting date was based (cf. Note 25 in the Notes to the consolidated financial statements). Other current and non-current provisions increased by EUR 10.5 million year on year, resulting in non-current provisions with a carrying amount of EUR 19.8 million at the end of the year (Dec. 31, 2019: EUR 18.5 million) and current provisions of EUR 26.9 million (Dec. 31, 2019: EUR 17.7 million). In the financial year under review, personnel-related obligations, which are to be recognized in the context of partial retirement and similar items, increased by EUR 2.8 million. Other significant allocations to provisions related to warranty obligations, potential losses from customer contracts, and other risks.

Further reduction in net debt

Despite the downturn in business, the ElringKlinger Group further improved its solid financial situation over the course of the year under review. Net debt[1] was again scaled back, having already been reduced markedly in the previous year, particularly with the help of a program implemented by management with the aim of raising efficiency levels. Compared to the figure posted at the end of 2019 (EUR 595.3 million), it was down by EUR 136.5 million to EUR 458.8 million. Non-current financial liabilities accounted for the largest share at EUR 391.9 million (Dec. 31, 2019: EUR 570.4 million). The Group thus managed to improve its net debt/EBITDA* ratio significantly from 3.3 in the previous year to 2.5 in the period under review.

In the period under review, there were no significant changes in credit terms, not even as a result of influences from the coronavirus pandemic. As of December 31, 2020, ElringKlinger complied with all covenants agreed with financial institutions.

Net working capital lower

As of December 31, 2020, trade payables accounted for by the ElringKlinger Group amounted to EUR 128.9 million (Dec. 31, 2019: EUR 157.1 million). The reduction compared with the previous year's level is mainly due to the lower purchasing volume during the financial year as a result of cost-cutting measures and a conservative investment policy. Despite this counteracting effect on net working capital*, which corresponds to inventories and trade receivables less trade payables, net working capital decreased from EUR 432.6 million at the end of 2019 to EUR 402.8 million at the end of the reporting period; this was attributable to the disproportionately large reduction in inventories.

Other current liabilities amounted to EUR 125.5 million at the end of the reporting period (Dec. 31, 2019: EUR 109.6 million). They include a written put option of EUR 36.9 million as well as a number of deferrals relating to various items, e.g., personnel and outstanding invoices as well as other deferrals. In the 2020 financial year, among other things, the liabilities existing with regard to the put option increased due to changed parameters.

[1] Current and non-current financial liabilities less cash and cash equivalents and short-term securities; securities (Dec. 31, 2020: EUR 10.5 million) are excluded as from the 2020 financial year.

* Cf. glossary

The ElringKlinger Group's return on capital employed (ROCE) amounted to 1.7% in 2020 (2019: 3.4%). This financial indicator, which is of relevance to corporate management activities, expresses how high the return on capital employed is; it is determined from the relation of EBIT* to average capital employed (cf. "Internal Control Criteria"). After initially assuming a slight year-on-year improvement in this indicator for 2020, ElringKlinger anticipated a deterioration from May onwards as a result of its lower earnings forecast.

Cash Flows

Despite challenging market conditions in 2020, the ElringKlinger Group managed to generate substantial net cash of EUR 217.8 million from operating activities. This was underpinned by extensive measures centered around cost streamlining and cash management measures, which also included a disciplined approach to investment. At EUR 164.7 million, the Group again achieved a significant level of operating free cash flow[1] – on the back of EUR 175.8 million generated in the previous year. In conjunction with undrawn credit lines, the ElringKlinger Group's financial situation in terms of cash flows thus remains solid.

Operating cash flow again in excess of EUR 200 million

Cash flow* from operating activities proved very favorable in 2020, despite the general difficulties associated with the financial year. In this context, measures introduced by the Group for the purpose of scaling back costs and optimizing net working capital* (inventories and trade receivables less trade payables) proved particularly effective. The Group's operating cash flow totaled EUR 217.8 million, which is to be seen against the backdrop of a substantial inflow of EUR 277.6 million in the previous year.

The change in net working capital (including other assets and liabilities not attributable to investing or financing activities) produced a cash inflow of EUR 57.4 million in the financial year under review (2019: EUR 150.1 million). In this context, lower inventories had a favorable impact, while in the previous year an expansion of trade payables had also led to a reduction in the overall commitment of funds.

In contrast to the Group's earnings performance, which was impacted by depreciation, amortization, and impairments of EUR 153.7 million (2019: EUR 119.7 million), cash flow remained unaffected. Similarly, the share of the result of associates of EUR -6.8 million (2019: EUR 0.5 million) had no effect on cash flow.

Investments in property, plant, and equipment down sharply

Following extensive investments in previous years, from 2019 onward ElringKlinger directed its investment activities primarily at projects of strategic importance. Against the backdrop of the unexpected economic slump seen in the first half of 2020, the Group stepped up its disciplined investment approach in the financial year under review.

[1] Cash flow from operating activities less cash flow from investing activities, adjusted for cash flows in respect of acquisition activities and changes in financial assets

Key figures Cash Flows

in EUR million	2020	2019
Net cash from operating activities	217.8	277.6
Operating free cash flow	164.7	175.8
Investments in property, plant, and equipment*	57.3	92.2
Investment ratio	3.9%	5.3%

* Payments for investments in property, plant, and equipment and investment property

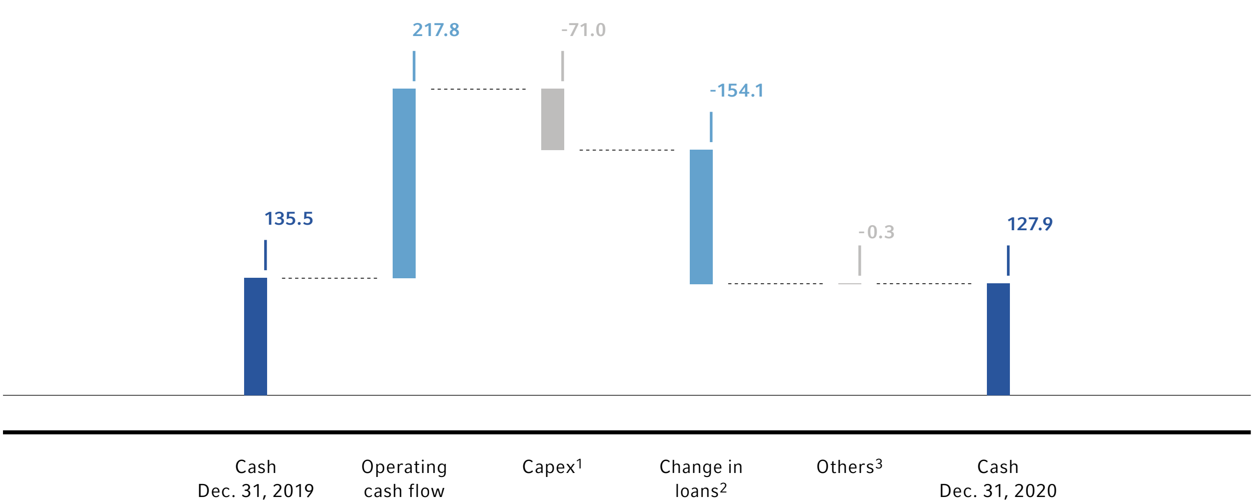
As a result, payments for investments in property, plant, and equipment were significantly lower compared to the previous year, at EUR 57.3 million (2019: EUR 92.2 million). Around half of this volume was attributable to the German sites operated by the parent company. Among other things, these investments were attributable to the installation of a production line for battery systems at the site in Thale as well as production systems for fuel cell* modules in Dettingen/Erms. In addition, expenses were incurred for the final completion of work on the Technology Center for E-Mobility, which was built at the main site in Dettingen/Erms in 2019 and has been operating since 2020.

Furthermore, ElringKlinger made investments in all regions, the focus being on installing systems for serial production ramp-up or implementing essential automation and replacement measures.

The investment ratio (payments relating to investments in property, plant, and equipment and investment property relative to Group sales revenue) fell to 3.9% (2019: 5.3%).

Payments for intangible assets, which also include expenses relating to capitalized development costs, amounted to EUR 13.7 million (2019: EUR 19.1 million).

Changes in cash 2020
in EUR million



[1] Payments for investments in property, plant, and equipment, investment property, and intangible assets
[2] Including lease liabilities
[3] Cash inflow from investing activities EUR 10.4 million (netted), currency effects on cash and cash equivalents EUR -9.0 million, payments to non-controlling interests EUR 1.7 million

* Cf. glossary

Cash inflows from disposals of property, plant, and equipment, intangible assets, and investment property amounted to EUR 17.9 million (2019: EUR 9.6 million). They included proceeds of EUR 17.3 million from a sale-and-leaseback transaction in the Services segment. The key items relating to the previous year included the sale of land and the disposal of the Hungarian industrial park presented in the Notes under subsidiaries sold.

In total, net cash used in investing activities by the Group amounted to EUR -60.6 million in 2020, after EUR -84.5 million in the previous year.

Operating free cash flow of EUR 164.7 million

Benefiting from cash flow from operating activities and low capital expenditure, ElringKlinger once again recorded very good operating free cash flow* in the 2020 financial year. At EUR 164.7 million, it came close to the prior-year figure of EUR 175.8 million. ElringKlinger thus further bolstered its financial strength in the 2020 financial year.

Cash flow from financing activities

ElringKlinger used the surplus of cash generated within the Group to further reduce its debt. This primarily included the repayment of long-term loans: the inflows and outflows relating to long-term loans resulted in a net outflow of EUR 183.2 million in 2020 (2019: inflow of EUR 60.3 million).

Cash flow from financing activities, which also takes into account changes in short-term borrowings of EUR 29.2 million (2019: EUR -163.3 million) and distributions to non-controlling interests of EUR 1.7 million (2019: EUR 0.8 million), amounted to EUR -155.8 million in 2020 (2019: EUR -103.8 million).

As of December 31, 2020, the ElringKlinger Group had cash and cash equivalents of EUR 127.9 million (Dec. 31, 2019: EUR 135.5 million) and open, unused credit lines of EUR 236.0 million (Dec. 31, 2019: EUR 150.5 million). ElringKlinger thus continues to enjoy a comfortable level of aggregate liquidity of EUR 363.9 million (Dec. 31, 2019: EUR 286.0 million).

Overall assessment by the Management Board of the financial position, financial performance, and cash flows of the Group

The 2020 financial year was dominated by the effects of the coronavirus pandemic, which was reflected in lower sales volumes for the ElringKlinger Group as a whole, particularly in the first half of the year. Despite the overall decline in revenue by 14.3%, the Group achieved earnings before interest, taxes, depreciation, and amortization that were on a par with the prior-year figure. Above all, however, the Group further bolstered its financial strength, as evidenced by the significant reduction in financial liabilities and the improvement in key financial indicators.

Reflecting the current economic circumstances and the Covid-19*-induced decline in demand, Group revenue fluctuated significantly over the course of the financial year. The market upturn seen in the second half of the year partially compensated for revenue shortfalls recorded in the first half. Overall, ElringKlinger's performance in respect of revenues, adjusted for currency and M&A* effects, was better at approx. -12% than that relating to global vehicle production, which fell by around 16%. The slump in markets in the first half of the year as well as the associated impact of the pandemic, which was difficult to gauge, posed a major challenge to the operating units. Building on countermeasures such as more extensive cost reductions, disciplined capital expenditure, or flexible adjustments to requirements at an operational level, the Group succeeded in meeting its revised expectations with regard to earnings performance for the annual period as a whole. Earnings before interest and taxes (EBIT*) for the 2020 financial year amounted to EUR 27.7 million, while the EBIT margin stood at 1.9%.

In addition, the efficiency enhancement program pursued by the Group in the longer term led to further cost reductions. Among its key elements are the identification of streamlining potential and optimization measures in net working capital*. This also paved the way for financial improvements, as a result of which ElringKlinger recorded substantial cash inflows from operating activities for the second year in a row and again managed to scale back its financial liabilities. The debt ratio (net debt*/EBITDA*) was reduced to 2.5 (after 3.3 a year earlier), while operating free cash flow for the financial year totaled EUR 164.7 million.

Over the course of the 2020 financial year, ElringKlinger remained committed to the rigorous pursuit of its strategic positioning with regard to the transformation process within the automotive industry. This includes key alliances entered into in 2020 with the aircraft manufacturer Airbus and the

French automotive supplier Plastic Omnium for the purpose of advancing fuel cell technology. ElringKlinger made preparations for this transition at an early stage. The Group's product range includes customized solutions both for classic applications and for vehicles with alternative battery and fuel cell technology drives. Management is of the opinion that ElringKlinger's strong portfolio, broad customer base, which includes both established and new manufacturers, and global network of production sites provide an excellent basis for consistently solid business development.

Financial Performance, Net Assets, and Cash Flows of ElringKlinger AG

As in previous years, the management report of ElringKlinger AG and the Group management report have been brought together in a combined format. The business performance relating to ElringKlinger AG, as outlined below, is based on its annual financial statements, which have been prepared in accordance with the provisions set out in the Commercial Code (Handelsgesetzbuch – HGB) and the additional requirements of the Stock Corporation Act (Aktiengesetz – AktG) as well as the relevant provisions of the Articles of Association.

In the wake of the coronavirus pandemic global car production fell by around 16% in 2020. Revenues generated by ElringKlinger AG were comparatively robust, declining by just 8.5%. While factors such as the year-on-year increase in depreciation and taxes had an adverse effect, the lower cost-of-materials ratio and the reduction in personnel expenses had a positive impact on the bottom-line result.

Revenue performance visibly better than market change

Against the backdrop of the coronavirus pandemic, ElringKlinger AG recorded sales revenues of EUR 648.6 million in the period under review (2019: EUR 709.1 million). This corresponds to a decline of 8.5%. The company thus performed better than expected, as the downturn was less pronounced than that relating to global car production (-16.2%) and European production output (-22.0%). Originally, the direction taken by sales revenue within the parent company had been expected to be roughly in line with the market as a whole in 2020. In this context, however, the actual performance of the market as a whole was significantly below prior-year expectations, which had assumed a market decline in the region of 4% or slightly more.

The consequences of the coronavirus pandemic, such as lockdowns and production downtime, led to a decline in revenue in all regions. In Germany, in particular, the company was able to cushion the blow relatively well, with revenue falling by just 3.4% or EUR 8.2 million year on year to EUR 233.7 million (2019: EUR 241.8 million). This figure includes revenues from products fitted to vehicles and engines that are subsequently exported.

* Cf. glossary

Accounting for 42.7% (2019: 43.5%) of revenue, the Rest of Europe (excluding Germany) is the most important sales market for ElringKlinger AG. At EUR 277.1 million, revenue generated from sales in this region was EUR 31.5 million or 10.2% below the level recorded in the previous year (2019: EUR 308.6 million). In North America, the percentage downturn was more pronounced; revenue totaled EUR 57.8 million, EUR 15.7 million or 21.4% down on the prior-year figure (2019: EUR 73.5 million). In the Asia-Pacific region, the company generated EUR 54.3 million in revenue, EUR 5.4 million or 9.0% less than in the previous financial year (2019: EUR 59.6 million).

In total, revenue from foreign sales was down by 11.2% to EUR 414.9 million (2019: EUR 467.3 million). Thus, the share of foreign sales fell by 1.9 percentage points to 64.0% (2019: 65.9%).

Revenue down in Original Equipment segment

The Original Equipment segment generated revenue of EUR 483.1 million in 2020, thus falling EUR 67.6 million or 12.3% short of the prior-year figure (2019: EUR 550.7 million). As a result of this decline, its share of the company's total revenue also decreased, down by 3.2 percentage points to 74.5% (2019: 77.7%). The largest declines in revenue were attributable to the Lightweighting/Elastomer Technology and Metal Sealing Systems & Drivetrain Components business units. The E-Mobility business unit, which includes battery and fuel cell* technology, more than doubled its revenue in the period under review.

Revenue growth in Aftermarket business despite pandemic

Although the effects of the pandemic had a detrimental effect on the economies of many countries, the Aftermarket segment managed to drive revenue forward in the 2020 financial year. At EUR 165.4 million, revenue was up EUR 7.1 million or 4.5% on the prior-year figure (2019: EUR 158.3 million). Thus, the segment succeeded in visibly expanding its share of revenue to 25.5% (2019: 22.3%).

At EUR +6.7 million, growth was particularly buoyant in Eastern Europe. Having said that, the Aftermarket segment also expanded in Germany, the Middle East/Indian subcontinent, and in North and South America – in some cases significantly. Only Western Europe and Asia saw a decline in revenue.

Significant year-on-year decline in total operating revenue

The downturn in business was also reflected in a reduction in inventories by EUR 4.3 million (2019: EUR -2.4 million). Other own work capitalized rose slightly to EUR 1.3 million (2019: EUR 0.2 million). Overall, total operating revenue thus amounted to EUR 645.6 million (2019: EUR 706.9 million), a decrease of EUR 61.3 million or 8.7%.

Other operating income totaled EUR 36.9 million (2019: EUR 12.5 million). The significant year-on-year increase is mainly due to write-ups relating to financial assets and financial receivables.

Other operating expenses rose by EUR 4.5 million or 4.2% to EUR 113.0 million (2019: EUR 108.5 million). The Group-wide efficiency enhancement program also resulted in cost savings for the parent company. In parallel, Covid-19-related savings, such as lower travel costs, fewer services from third parties, or lower advertising costs due to fewer trade show appearances, prompted a reduction in expenses. These savings were more than offset by predominantly unrealized expenses from foreign exchange differences and additions to provisions or other occurrences of damage.

Lower cost-of-materials ratio

While the standard indices for some of the key raw materials required by ElringKlinger for the manufacture of its products, such as polyamides*, aluminum, and nickel, recovered visibly in the first half of the year, they began to rise steadily again from the end of the second quarter onward. In parallel with the significant decline in demand in the wake of the coronavirus pandemic, the cost of materials fell by a total of EUR 41.2 million or 13.8% to EUR 258.4 million in the financial year under review (2019: EUR 299.6 million). Consequently, the cost-of-materials ratio, which puts the cost of materials in relation to total operating revenue, improved to 40.0% (2019: 42.4%).

Personnel expense ratio also down

The decline in demand due to the coronavirus pandemic also had an impact on the overall headcount at ElringKlinger AG. At the end of 2020, the company had 3,213 employees, 154 fewer than at the end of the previous financial year (Dec. 31, 2019: 3,367 employees). The company pursued a personnel policy that was as demand-oriented as possible by filling vacant positions internally whenever feasible. In those instances in which this conservative approach was not possible, external replacements were made in individual cases. In addition, the company took advantage of short-time work, which also resulted in lower social security contributions. In total, personnel expenses fell by 10.5% or EUR 25.6 million to EUR 219.5 million (2019: EUR 245.2 million). The personnel expense ratio – i. e. personnel expenses in relation to total operating revenue – improved slightly to 34.0% (2019: 34.7%).

Write-downs of current assets

At EUR 36.2 million, systematic depreciation and amortization of intangible and tangible fixed assets remained largely unchanged year on year (2019: EUR 36.8 million). In contrast to the previous year, write-downs of current assets were made in the amount of EUR 16.6 million to the extent that they exceed the write-downs that are usual for the corporation. This related to current financial receivables within the Group from subsidiaries.

Earnings before interest, taxes, and equity investments (operating EBIT) better than expected

Due to the factors outlined above, ElringKlinger AG's earnings before interest, taxes, and equity investments increased by EUR 9.5 million or 32.3% year on year (2019: EUR 29.4 million) to EUR 38.8 million. This is equivalent to an EBIT margin* (as a proportion of total operating revenue) of 6.0% (4.2%). The company had originally expected its EBIT margin to drop below the prior-year figure due to the less favorable economic outlook and in view of the initial impact of the coronavirus.

Slight increase in net finance costs

Income from equity investments rose by EUR 7.1 million or 23.4% to EUR 37.3 million in 2020 (2019: EUR 30.3 million). In addition, income of EUR 0.5 million (2019: EUR 0.7 million) was generated from other securities and long-term loans. This was offset by write-downs of long-term financial assets, which at EUR 65.7 million were EUR 10.5 million or 19.0% higher than in the previous year. At EUR 7.2 million, other interest expenses were comparable to last year's figure (2019: EUR 7.3 million). Interest and similar expenses, by contrast, were reined in by EUR 2.8 million or 17.6% to EUR 13.2 million (2019: EUR -16.0 million), mainly due to the significant reduction in net debt*. Net finance costs* thus rose from EUR -32.9 million in 2019 to EUR -33.9 million in the financial year under review.

Higher tax expenses

Due to the improvement in earnings before interest, taxes, and equity investments, the pre-tax result was in positive territory at EUR 5.0 million (2019: EUR -3.6 million) despite slightly higher net finance costs. On the one hand, the write-downs of financial assets are not effective for tax purposes and, on the other hand, the proceeds attributable to a strategic partnership had to be taken into account. As a result, there was no reduction in taxes on income compared to the previous year. They amounted to EUR 16.2 million in the financial year under review (2019: EUR 13.3 million). This item includes taxes relating to other periods in the amount of EUR 1.1 million (2019: EUR 1.8 million). In total, post-tax profit at the end of the reporting period stood at EUR -11.2 million (2019: EUR -16.9 million). After deducting other taxes, ElringKlinger AG posted a net loss of EUR 11.6 million for the financial year under review (2019: EUR 17.1 million). Taking into account the loss carried forward of EUR 22.4 million from the previous year, the accumulated loss in 2019 amounts to EUR 34.0 million (2019: EUR -22.4 million).

Suspension of dividend

No reversals of revenue reserves were made in the 2020 financial year, the aim being to further strengthen internal financing for the transformation process of the company. The 2020 financial year produced a net loss of EUR 11.6 million (2019: net loss of EUR 17.1 million). The Management Board and Supervisory Board have therefore jointly decided to again suspend the dividend for the 2020 financial year. The accumulated loss will be carried forward to new account.

* Cf. glossary

Net Assets of ElringKlinger AG

The asset structure of ElringKlinger AG reflects its dual role as an operating production company with simultaneous holding and financing functions within the ElringKlinger Group. In addition to the assets required for operating activities, the balance sheet prepared in accordance with the German Commercial Code (HGB*) includes a substantial amount of financial assets and receivables from affiliated companies. In the 2020 financial year, the equity ratio again improved at a solid level to 43.5% (2019: 40.2%). Financial liabilities were scaled back substantially year on year – by EUR 126.0 million to EUR 393.4 million. Thus, ElringKlinger AG managed to further strengthen net assets in the period under review.

Fixed assets account for 58% of total assets

Total assets stood at EUR 1,194.1 million at the end of 2020, compared with EUR 1,319.3 million at the end of the previous financial year. Fixed assets, which had a carrying amount of EUR 690.0 million (Dec. 31, 2019: EUR 735.7 million) and accounted for 57.8% (Dec. 31, 2019: 55.8%) of total assets, were divided almost equally between tangible fixed assets and financial assets. Intangible assets amounted to EUR 6.3 million (Dec. 31, 2019: EUR 7.9 million).

Tangible fixed assets were down at EUR 334.3 million as of the end of the reporting period (Dec. 31, 2019: EUR 352.2 million). While new additions from investing activities of EUR 33.0 million were almost on a par with depreciation and amortization (EUR 34.1 million), the overall reduction was due to disposals in the financial year. Among other items, they were related to the sale of a building at the site of ElringKlinger Logistic Service GmbH, Ergenzingen, Germany.

As of December 31, 2020, financial assets had a carrying amount of EUR 349.4 million (Dec. 31, 2019: EUR 375.6 million). Significant movements in the year under review included write-downs and write-ups on the interests in affiliated companies accounted for in this item. They arose in the course of the annual impairment test, in which calculations in accordance with the income approach were performed on the basis of the medium-term budget of the respective company. As a result, the interests in seven Group companies decreased, and reversals of impairment losses were recognized for three shareholdings. At the end of 2020, the carrying amount was EUR 36.4 million lower at EUR 306.2 million (Dec. 31, 2019: EUR 342.7 million). The equity investments accounted for by ElringKinger AG include the non-controlling interests in hofer AG, Nürtingen, Germany, and – since 2020 – in Aerostack GmbH, Dettingen/Erms, Germany (cf. "Significant Events"). Loans to other long-term investees and investors include non-current receivables of EUR 6.3 million relating to the new equity investment.

Current assets down on previous year

The inventories held by ElringKlinger AG mainly encompass raw materials for the production process as well as semi-finished and finished products, including stock relating to the aftermarket business. Inventories were scaled back as part of a longer-term inventory optimization program. In this context, the slight overall reduction in raw material prices also proved somewhat beneficial in the 2020 financial year. By contrast, increased demand in the fourth quarter of 2020 and substantial order backlogs for the ensuing months required an expansion of raw materials and work in progress at the end of the year. In total, inventories were down slightly year on year to EUR 141.2 million (Dec. 31, 2019: EUR 147.8 million).

As ElringKlinger AG is responsible for central finance and liquidity management within the Group, it also raises external funds and makes them available to affiliated companies for financing purposes. This financing function is mainly reflected in two asset items. The first encompasses loans to affiliated companies, which amounted to EUR 7.4 million as of December 31, 2020 (Dec. 31, 2019: EUR 7.6 million). The other item – with a larger volume in comparative terms – relates to receivables from affiliated companies included in current assets. At the end of 2020, they amounted to EUR 273.8 million (Dec. 31, 2019: EUR 336.0 million). In the 2020 financial year, repayments in the double-digit million euro range were recorded with regard to subsidiaries in Hungary and Mexico. Impairment losses on short-term loans of EUR 16.6 million relating to various companies, which are also to be seen in the context of annual impairment testing, had a contrary effect.

Trade receivables accounted for by ElringKlinger AG amounted to EUR 64.5 million at the end of the financial year under review, which was around 14% higher than the prior-year figure (Dec. 31, 2019: EUR 56.8 million). In total, ElringKlinger AG recorded receivables and other assets of EUR 358.6 million as of December 31, 2020 (Dec. 31, 2019: EUR 417.3 million).

Equity ratio of ElringKlinger AG at 44%

As of December 31, 2020, equity accounted for by ElringKlinger AG totaled EUR 519.0 million (Dec. 31, 2020: EUR 530.5 million). Its share of the balance sheet total was higher year on year, as a result of which the equity ratio rose to 43.5% (Dec. 31, 2019: 40.2%). As the company did not pay a dividend for the previous financial year, the change in shareholders' equity compared with the end of the previous year was attributable solely to the net loss for the 2020 financial year (EUR -11.6 million).

Provisions recognized by ElringKlinger AG amounted to EUR 141.3 million as of December 31, 2020 (Dec. 31, 2020: EUR 124.2 million). They include provisions for pensions and similar obligations of EUR 84.7 million (Dec. 31, 2019: EUR 81.2 million) as well as tax provisions and other provisions. Pension provisions were remeasured as scheduled at the end of the year on the basis of defined parameters, such as interest rates. Tax provisions increased by EUR 9.1 million to EUR 11.4 million (Dec. 31, 2019: EUR 2.3 million). Other provisions accounted for by ElringKlinger AG amounted to 45.2 million (Dec. 31, 2019: EUR 40.6 million). Almost half of these are personnel-related obligations such as provisions associated with anniversaries, time credits, or partial retirement obligations. Beyond this, other provisions were made up of a wide range of items. Compared with the previous year's reporting date, there was an increase primarily in warranty obligations, outstanding customer credits, and maintenance costs as well as provisions relating to other risks.

Liabilities accounted for by ElringKlinger AG totaled EUR 533.6 million at the end of the reporting period (Dec. 31, 2019: EUR 664.4 million). The inflow of capital from operating activities and from financial transactions with affiliated companies provided the basis for a significant reduction in bank borrowings in the 2020 financial year. Liabilities to banks decreased by EUR 126.0 million year on year to EUR 393.4 million (Dec. 31, 2019: EUR 519.4 million). Trade payables fell to EUR 32.7 million in the period under review, down from EUR 53.7 million in the previous year. Liabilities to affiliated companies amounted to EUR 58.6 million as of December 31, 2020 (Dec. 31, 2019: EUR 40.4 million). They increased mainly due to a short-term loan provided by a subsidiary as part of the cash pooling arrangement.

ElringKlinger AG's return on capital employed (ROCE*) was 3.3% for the 2020 financial year (2019: 3.6%). This financial indicator expresses how high the return on capital employed is; it is determined from the relation of EBIT to average capital employed. As regards ElringKlinger AG, this performance indicator is calculated on the basis of IFRS* figures due to its integration within the Group (cf. "Internal Control Criteria"). While the lower-than-budgeted EBIT result had an adverse effect on profitability, the above-target reduction in average capital employed (equity, financial liabilities, pension provisions) had a positive effect on the key indicator.

* Cf. glossary

Cash Flows of ElringKlinger AG

Operating cash flow at EUR 71 million

On the back of substantial cash flow* recorded last year (2019: EUR 138.5 million), at EUR 70.8 million, ElringKlinger AG again generated significant net cash from operating activities in 2020. The impairment losses on financial assets (EUR 39.0 million, net of write-ups) and on short-term loans to affiliated companies (EUR 16.6 million), as outlined earlier, had no effect on cash flow. While the company had recorded substantial cash inflow in the previous year from the reduction in funds tied up in net working capital* (inventories and trade receivables less trade payables), in 2020 the funds absorbed in inventories and receivables as a whole were kept at a level comparable to that seen at the end of 2019.

Investment focus on e-mobility

In 2020, ElringKlinger AG's investments in tangible fixed assets resulted in a cash outflow of EUR 33.0 million (2019: EUR 25.9 million). Capital expenditure was directed, among other things, at an assembly line for battery modules at the site in Thale as well as at production equipment for fuel cell technology in Dettingen/Erms. Other investments were targeted at automation in the company's core business and the improvement of building infrastructures. Payments for investments in financial assets amounting to EUR 6.5 million mainly related to the acquisition of interests in an equity investment. The sale of a building at the site of affiliated company ElringKlinger Logistic Service GmbH in Ergenzingen, Germany, had a contrary effect on cash. They represented the majority of cash inflows from disposals of tangible fixed assets and intangible assets, which amounted to EUR 17.5 million in the 2020 financial year (2019: EUR 6.9 million).

In total, net cash used in investing activities amounted to EUR 23.1 million (2019: EUR 20.4 million) at ElringKlinger AG.

Operating free cash flow at EUR 54 million

As net cash generated from operating activities was considerably higher than net cash used in investing activities, ElringKlinger AG recorded operating free cash flow[1] of EUR 54.3 million in the 2020 financial year (2019: EUR 118.2 million). The company used this, as well as the proceeds from loan repayments by affiliated companies (net inflow of EUR 65.1 million), to reduce liabilities to banks. Thus, EUR 127.1 million (2019: EUR 82.1 million) was used for the repayment (netted against borrowings) of non-current and current liabilities to banks and loans. As the 2019 financial year had produced a net loss, no dividend payment was made in 2020 for the previous year. In total, net cash used by ElringKlinger AG for financing activities amounted to EUR 62.0 million (2019: outflow of EUR 103.3 million).

As of December 31, 2020, the undrawn lines of credit available to ElringKlinger AG totaled EUR 192.9 million (December 31, 2019: EUR 100.4 million).

The statement of cash flows in respect of the annual financial statements was again prepared according to the provisions set out in GAS 2.

[1] Cash flow from operating activities less cash flow from investing activities (excluding funds for acquisitions/divestments and before investments in financial assets)

People

As of December 31, 2020, the ElringKlinger Group employed 9,724 people (Dec. 31, 2019: 10,393) at 45 locations worldwide. In the 2020 financial year, the effects of the coronavirus pandemic prompted the use of instruments such as short-time work, the expansion of mobile working, and the further digitalization of processes in an effort to protect the workforce.

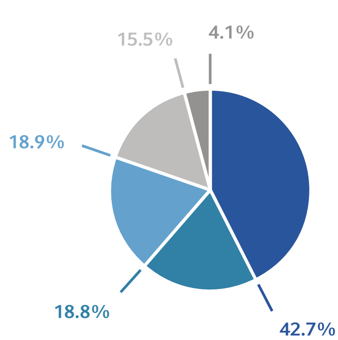
Lower headcount

Recruitment measures have generally been scaled back in the context of the efficiency enhancement program that ElringKlinger has been pursuing since 2019. This policy was reinforced by the sharp decline in capacity utilization as a result of the economic slump seen in the first half of 2020. In addition, fundamentally, fixed-term employment contracts were not extended in the financial year under review. At some Group locations, instruments such as short-time work, i.e., furlough schemes, were used from April 1, 2020, and mobile working was implemented as far as possible. In parallel, the Group promoted digital working, as a result of which, for example, professional training measures and meetings were conducted in a virtual format to an increasing extent.

Compared to the previous year, the headcount within the Group decreased by 669 to 9,724 as of December 31, 2020. The annual average number of employees within the ElringKlinger Group was 10,013 (2019: 10,457). The parent company ElringKlinger AG, which operates sites in Dettingen/Erms, Gelting, Runkel, Langenzenn, Idstein, Lenningen, and Thale, had a total of 3,213 (2019: 3,367) employees at the end of the reporting period.

In line with the overall economic trend, staff numbers in Europe and North America declined at a more pronounced rate than in Asia. Germany employed 4,149 people at the end of the year (Dec. 31, 2019: 4,324), representing 42.7% (Dec. 31, 2019: 41.6%) of the total workforce. The number of employees abroad was 5,575 (Dec. 31, 2019: 6,069), which represents a share of 57.3% (Dec. 31, 2019: 58.4%).

ElringKlinger Group employees
as of December 31, 2020 (previous year)



Germany	**4,149**	(4,324)
Rest of Europe	**1,824**	(2,028)
North America	**1,841**	(2,069)
Asia-Pacific	**1,512**	(1,545)
South America and Rest of the World	**398**	(427)

Report on Opportunities and Risks

ElringKlinger has a comprehensive risk management system in place for the purpose of identifying risks at an early stage, assessing them, and mitigating them by means of specific instruments and measures. In addition to external factors, such as technological aspects, internal factors, such as financial aspects, also influence the risk positions. The Group has a comprehensive set of instruments aimed at preventing the occurrence of such an event or, in the event of its occurrence, minimizing its impact on the company.

Risk management system

By monitoring markets, customers, and suppliers on a continual basis and maintaining detailed internal reporting and controlling processes, the company is able to gauge risk in a timely manner and seize market opportunities. The effectiveness and suitability of the risk management system itself is continually adapted and refined in accordance with new requirements as they arise.

The risk management system is made up of various tools and control systems. Among the key components are strategic Group planning and internal reporting. Planning enables potential risks to be identified and taken into account when making critical and significant decisions. All key areas within the Group are involved in strategic Group planning. Within this context, information is retrieved, collated, and evaluated in a standardized process. The Management Board bears overall responsibility. Internal reporting is used to monitor and control business performance. A key component of the risk management system is regular reporting by the management of the respective domestic and foreign Group companies as well as the business units, which is performed on a half-yearly basis. It covers risk-related developments in all fields relevant to the Group that can affect business activity and, in particular, the continuation of the ElringKlinger Group as a going concern. The focus is primarily on changes to the economic or political situation, new regulatory requirements, technological developments, commodities markets, and internal risks. This reporting system involves identifying and evaluating all risks and subsequently drafting recommendations on how to prepare for and mitigate them. The Chief Financial Officer is responsible for coordinating these activities. This approach is designed to ensure that risks are identified at an even earlier stage and measures aimed at avoiding or mitigating such risks can be implemented rapidly. The risk structure of the Group and the AG does not differ significantly overall.

In order to realize opportunities for the Group, the Management Board holds strategy meetings at regular intervals, at which it discusses market developments, customer requirements, and industry and technology trends. As an essential element of these meetings, the Management Board analyzes the Group's product portfolio and compares it with the framework requirements. As a result, conclusions for action are derived on this basis, which are implemented in the short, medium, and long term.

The Management Board assesses the aggregate risk and submits regular and comprehensive reports on its findings to the Supervisory Board and the Audit Committee. Another important aspect of the centralized risk and quality management system deployed at the ElringKlinger Group is that of tracking the implementation of defined measures. This occurs regularly as part of the committee meetings of the respective Group companies. The Group considers risk management to be an all-embracing activity that encompasses not only the identification and assessment of risk, as outlined above, but also a system of preventive measures and contingency planning that has proven to be very effective.

Alongside regular reporting, internal audits are an important control mechanism and thus an essential element of the risk management system. Audits are carried out in the business and corporate units of ElringKlinger AG as well as at the Group companies. They are conducted by the Audit department in cooperation with external accountancy firms commissioned by ElringKlinger AG. The rationale behind the use of internal and external specialists is to ensure that risks are identified, statutory requirements are met, internal processes are reviewed, and potential for improvement is recognized. The findings of such audits are compiled in reports, which are directed in particular at the Management Board and the Chairperson of the Audit Committee within the Supervisory Board. The reports are evaluated, whereupon necessary measures are initiated. The execution of measures is monitored by the Management Board member whose remit covers this area; this Management Board member is also responsible for reviewing assessments conducted with regard to risk positions identified by the company. All relevant findings are discussed with the areas concerned in order to bring about improvements or rectify any weaknesses.

Over the course of the 2020 financial year, the coronavirus pandemic also had an impact on internal audit activities. Travel restrictions imposed in response to the pandemic necessitated a realignment of the audit approach. Thus, the scheduled audits were carried out digitally or remotely. The time spent on the switchover was offset to a large extent by efficient processes. However, the overall number of audits was reduced compared to the original plan. In total, six process audits, two system audits, and six follow-up audits were conducted in the period under review. None of the audits conducted within this context gave rise to any significant objections. Both statutory regulations and internal requirements were consistently met. The recommendations submitted with regard to potential areas for optimization have been put in place or are currently being implemented.

In accordance with the existing compliance system, the Chief Compliance Officer reports directly to the Chief Executive Officer. Additional Compliance Officers have been appointed for individual regions in which ElringKlinger is active; they report to the Chief Compliance Officer. The ElringKlinger code of conduct forms an important part of the compliance system. It sets out binding rules for all employees of the ElringKlinger Group. Among other aspects, the code covers issues such as fair competition, corruption, discrimination and the protection of confidential data. The code is distributed to all employees in the language of the country in which they are based. Staff members, and particularly management personnel, receive training relating to these issues. Training courses are held on a regular basis in order to prevent compliance-related infringements.

ElringKlinger's Whistleblower System allows employees to report any irregularities they may come across. This gives them an anonymous line of communication in order to pass on information on misconduct, violations of statutory provisions, and policy infringements. The Chief Compliance Officer responded to all indications of compliance-related infringements in order to investigate the circumstances and initiate requisite measures. Where evidence suggested that an infringement may have occurred, the Management Board was informed accordingly. There are no significant breaches to report for 2020. The Management Board is committed to adapting and refining the existing compliance system to changing circumstances and the possibility of evolving risk exposure.

In order to reduce the liability risk from potential damage and any associated losses, the Group has taken out appropriate insurance policies. The suitability of these policies, which also cover the Group companies, is subjected to regular review with regard to the actual risks covered and the level of cover provided. Where necessary, the policies are then amended.

Control and risk management system with regard to accounting

With regard to accounting and external financial reporting within the Group, the internal control and risk management system may be described with reference to the basic characteristics outlined below. The system is geared toward the identification, analysis, valuation, risk control, and monitoring of these activities. The structuring of the system in line with the specific requirements of the company is the responsibility of the Management Board and Supervisory Board.

In accordance with the distribution of responsibilities within the company, the Finance department, which is in charge of accounting, comes under the remit of the Chief Financial Officer. This area, which also includes the Financial Reporting and Controlling departments, coordinates accounting within the Group and ElringKlinger AG and compiles the information required for the preparation of the consolidated financial statements and the annual financial statements of ElringKlinger AG. In this context, Financial Reporting sets the standards within the Group and describes the processes, while Controlling takes on planning, steering, and monitoring tasks. The Group companies are supported by the Regional Finance Managers responsible for the respective region. The Group companies report to the Chief Executive Officer.

The principal risks associated with the accounting process derive from the need to provide accurate and complete information within the specified time frame. This presupposes that the requirements have been clearly communicated and the departments responsible are placed in a position where they can meet those requirements. ElringKlinger has compiled an accounting manual on the basis of International Financial Reporting Standards. All Group companies are required to apply the standards outlined in this manual as a basis of the financial reporting process. All the principal valuation standards such as those covering inventories, tools, and receivables under IFRS* are specified in mandatory form within the manual. Mandatory accounting standards are also in use across the Group as a way of ensuring uniform treatment of the same issues.

All Group companies are obliged to comply with a pre-defined schedule for preparation of the Group financial statements. All Group companies are responsible for drawing up their separate financial statements in accordance with local accounting rules and the reporting packages pursuant to IFRS and the ElringKlinger accounting manual. Financial reporting by all the Group companies is conducted by means of a Group reporting system. Internal Group clearing accounts are reconciled with the help of confirmation of balances and the Group reporting system. It contains not only financial data but also information that is of importance to the notes to the consolidated financial statements and the combined management report of the ElringKlinger Group and ElringKlinger AG. The data and information are checked by the Finance department prior to release and consolidation.

SAP is used by all the German and the majority of the foreign subsidiaries within the ElringKlinger Group. As for the other companies, various IT systems are currently in use. In the medium-term, SAP is to be introduced at other key companies within the Group. All implemented systems feature hierarchical access systems; all clearances are documented in the system. For companies that use SAP, access rights are managed centrally according to established rules. Access decisions are the responsibility of the Chief Financial Officer. Local management makes decisions on access in those companies that use other systems.

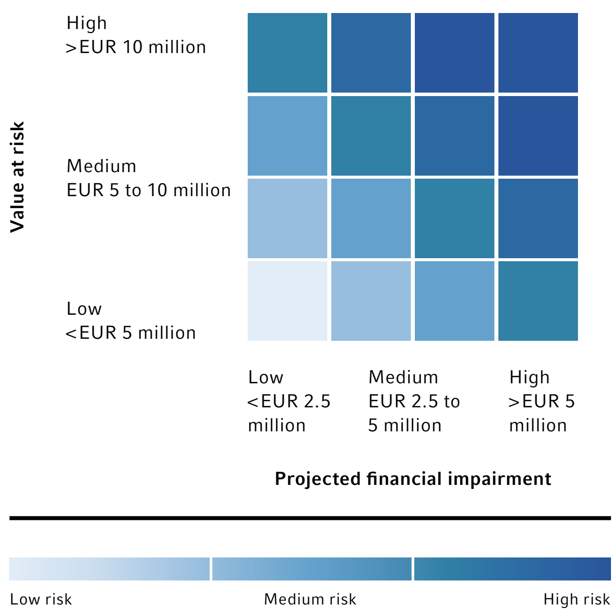
Among the risks that may affect the accounting process are, for instance, those associated with delays or errors in the entry of transactions or failure to observe the accounting manual and account allocation rules. In order to avoid mistakes, the accounting process is based on the separation of responsibilities and competencies, the automation of procedures, and plausibility checks for reporting purposes. Calculations are subject to continuous monitoring. Comprehensive and detailed checklists have to be worked through before the established reporting deadline.

The accounting process is also incorporated into the ElringKlinger Group's risk management system as a way of identifying accounting-related risks at an early stage, allowing the company to take prompt action to anticipate and address potential risks. As is the case with the other areas and functions of the Group, accounting is also subject to the investigations conducted as part of internal auditing; these are performed by external accountancy firms. Accounting processes and procedures at ElringKlinger AG and its Group companies are reviewed in the course of regular internal audits. The findings are then used to make further refinements and improvements.

Assessment of opportunities and risks

In order to assess risks, the ElringKlinger Group introduced a comprehensive new risk reporting system in the financial year under review, based on the application of statistical methods. For this purpose, the individual risks are identified according to the bottom-up principle, evaluated with regard to their probability of occurrence, and categorized centrally by the Group's Corporate Risk Manager. Using the Monte Carlo method, a very wide range of possible risk scenarios relating to the company are simulated and brought together in the form of a probability distribution of the overall risk situation. Each risk is calculated on the basis of the assessment conducted by the risk managers with its possible range of effects and its frequency in the period under consideration and combined to form the overall risk of the company. The wide range of calculated scenarios results in a profile of very probable and less probable outcomes that can be described with key indicators and provide the basis for quantitative risk assessment.

Risk matrix of the ElringKlinger Group



The following table presents an overview of material risks to which the ElringKlinger Group is currently exposed. Risks are recorded according to the net approach, i.e., the respective countermeasures are taken into account within the risk assessment. The respective risk categories comprise numerous individual risks and are elaborated further below. Based on the scenario analysis, the risks were assessed and classified into different classes. An anticipated financial impairment of up to EUR 2.5 million per category was classified as "low," a projected negative impact of more than EUR 2.5 million and up to EUR 5 million as "medium," and an expected financial loss of more than EUR 5 million as "high." At the same time, the value at risk was taken into account within the risk matrix. This statistical indicator determines the maximum loss that will not be exceeded in the specified period with a certain probability – in this case 95%. Thus, it does not describe the maximum potential loss, as a scenario beyond this probability is still considered possible. The same risk classes were formed with regard to value at risk. An expected maximum value of up to EUR 5 million per category at the stated confidence level of 95% was classified as "low," a projected value of more than EUR 5 million and up to EUR 10 million as "medium," and an anticipated value of more than EUR 10 million as "high." The assessment of opportunities and risks was performed as of the end of the reporting period, i.e., December 31, 2020. Reporting in respect of risks is always based on a period of one year.

Risks associated with the coronavirus pandemic

The coronavirus pandemic had a significant impact on economic activity worldwide in the 2020 financial year. In the majority of cases, countries responded by introducing strict measures aimed at protecting the population and lessening the impact on health care systems. In Europe and North America, in particular, the second quarter of 2020 highlighted the significant effect that a lockdown, including plant closures, can have on the economy. Many sectors were faced with a severe decline in revenues, with companies having to respond in the form of short-time work, structural adjustments, or other measures. In addition to the impact of plant closures, the automotive industry saw a sharp decline in demand. The latter recovered rapidly in China in the second quarter and dynamically in North America over the course of the third quarter, while the upturn in Europe proved sluggish in the same period.

Risk profile of the ElringKlinger Group

Risk categories	Value at risk	Projected financial impairment
Risks associated with the coronavirus pandemic	High	Medium
Inventory management risks	Medium	Medium
Financial risks	Medium	Medium
Customer risks	Medium	Low
Material and supplier risks	Low	Low
Labor cost risks	Low	Low
New customer risks	Low	Low
Operational risks	Low	Low
Technology risks	Low	Low
Personnel risks	Low	Low

Higher infection rates at the beginning of the fourth quarter, particularly in South Asia, Europe, and North and South America, pointed to a second wave of the pandemic. This, in turn, shows the overall vulnerability of the globalized world to such a pandemic. Again, governments implemented measures to protect the population. Scheduled to remain in place in 2021 to some extent, they may have an impact on the economic situation in general as well as on the automotive industry in particular. Although vaccines have been developed, full vaccination coverage of the population is not expected before mid-2021. Additionally, it cannot be ruled out entirely that mutations of the virus may be resistant to vaccines, which would potentially make vaccinations ineffective. As a result, the risk of plant closures, volatile markets, supply chain disruptions, customer or supplier insolvencies, or similar events that may have an impact on the Group's financial situation continues to exist for the 2021 financial year. This also includes an outbreak of infection at individual plants operated by the Group.

ElringKlinger introduced extensive preventive measures at an early stage in order to protect its employees at all its sites. These include the introduction of hygiene rules, the separation of work areas, extensive policies on mobile working, and restrictive rules on business travel and visits. In addition, staff members are provided with mouth-nose protection masks and have access to tests based on the polymerase chain reaction method (so-called PCR tests*). In the event of production downtime, ElringKlinger uses instruments such as short-time work in Germany or similar programs elsewhere, insofar as they exist at the Group's international sites. Suppliers and customers with corresponding risk profiles are closely monitored in order to be able to react quickly to outages. ElringKlinger is also committed to long-term partnerships with both its customers and suppliers, in addition to pursuing a multi-supplier strategy in order to mitigate individual risks to the greatest extent possible.

Inventory management risks

Due to the Group's long history, its numerous product groups with multi-level development cycles, its extensive development activities, and its global positioning with 45 locations, there is a risk of low turnover rates in inventories relating to raw materials as well as semi-finished and finished products. These interrelationships tend to play a more pronounced role in times of production interruptions or a high degree of uncertainty. A complex management approach is required to eliminate these risks.

At ElringKlinger, inventories held within the Group are regularly reviewed with regard to their turnover rate in order to assess material-related risks. Stocks with a low turnover rate are evaluated to determine whether they should be used, sold, or scrapped.

Financial risks

With 45 locations worldwide, revenues well in excess of EUR 1 billion, and a headcount of close to 10,000, the overall scale of ElringKlinger as a Group is such that various financial risks have to be taken into consideration.

ElringKlinger is automatically exposed to currency risks by virtue of its global operations. These include local currency surpluses at certain Group companies and intra-Group loans. Local currency surpluses are largely minimized through natural hedging*, i.e., in almost all sales regions the majority of costs and revenues are denominated in the same currency. Intra-Group financing risks are gradually eliminated by shifting the loans into the same currency zone.

ElringKlinger is also exposed to currency translation risks when local results are consolidated in the Group currency. Therefore, changes in the average exchange rates can have an accretive or a dilutive effect on the Group's revenue and earnings.

In times of higher uncertainty, in particular, exchange rate changes tend to occur more frequently or at a more pronounced level. They are also reflected in net finance costs*. These factors are mainly associated with the funding of Group entities by the parent company as well as with the measurement of accounts receivable and payable.

In order to limit currency risks, ElringKlinger employs hedging instruments depending on necessity and risk profile.

Beyond the risk associated with currencies, the Group is exposed to other financial risks that play a subordinate role in the scenario analysis with regard to the bottom-up approach. These include the risk of bad debts, which is mitigated in particular by long-standing customer relationships, a broadly diversified customer base, and advance payments as a condition of payment or with the help of trade credit insurance.

The Group may be exposed to liquidity and financing risks if it cannot meet its financial obligations (e.g., to repay loans) and generate enough cash to cover its ongoing capital requirements and therefore continue to operate, and/or if it is unable to refinance its activities.

The Group's financing requirements are largely determined by corporate growth and the development of new technologies. In recent years it has been possible to obtain credit on relatively favorable market terms. If, in future, rating agencies were to downgrade the automotive industry as a whole in response to a generally less favorable risk profile, credit terms for the sector and ultimately also for ElringKlinger would be adversely affected. In this respect, the Group is also exposed to interest rate risk. Against this background, despite relatively low market interest rates and the industry's continued ability to generate healthy levels of revenue, the company is constantly exposed to an implicit financing risk.

Thanks to its strong balance sheet, the ability of the ElringKlinger Group to refinance itself remains solid. At 41.4% (2019: 41.5%) the equity ratio still lies within the Group's medium-term target corridor of 40–50% of total assets. The debt factor (net debt* in relation to EBITDA*) in the period under review was 2.5, which is an improvement on the prior-year figure (2019: 3.3).

At the end of the reporting period, the loan agreements of the ElringKlinger Group mainly included standard bank contractual clauses relating to compliance with certain financial requirements (financial covenants*). As of December 31, 2020, no circumstances were present that would have justified the exercise of unilateral termination rights by banks. In the opinion of the Management Board, these are also not to be expected for the 2021 financial year. The company has identified no immediate risks that might jeopardize the financing of major projects planned by ElringKlinger or prevent the company from meeting its payment deadlines. From today's perspective, financing risks that might jeopardize the company's existence as a going concern can be ruled out.

The ElringKlinger Group funds itself through cash flow* generated from operating activities as well as through borrowings from banks. The bonded loan (Schuldscheindarlehen) granted in 2017 was used to optimize the term structure of the Group's interest expenses and therefore make them easier to plan. In total, a volume of EUR 200 million was issued in tranches covering maturities of five, seven, and ten years and with an average rate of interest of 1.23%. In addition, a syndicated loan* agreement was concluded with meanwhile seven domestic and international banks in February 2019, covering a sum of EUR 350 million over a minimum term of five years. The current level of interest rates within the market is low when viewed over an extended period of time. A marked increase in interest rates would feed into variable rate loans and would ultimately also have an impact on ElringKlinger's net finance result. To a large extent, however, fixed interest rates have been agreed in respect of the bilateral financing liabilities of the ElringKlinger Group (cf. Notes: "Non-current and current financial liabilities").

ElringKlinger only makes use of derivative financial instruments in isolated cases, e.g., for the purpose of protecting the company against price fluctuations relating to high-grade steel alloys (particularly nickel). Where hedging contracts are employed as a protective instrument against commodity price volatility, they are always based on the actual quantity of physical materials required by the company.

Customer risks

A sudden decline in demand faced by one or several key customers may pose the risk of a substantial reduction in demand for ElringKlinger components to be installed in the respective vehicles and/or engines. In the context of industry transformation, manufacturers may also revise their production strategies and aim for in-house production with regard to components or systems that they previously sourced externally. In addition to these fundamental developments, there are operational issues arising from existing contractual relationships with customers.

Should this apply to ElringKlinger's products, the Group must take account of the contract terms at an early stage and adjust capacity planning wherever necessary. Fundamentally, the Group is protected by the fact that a focus on technology forms an integral part of ElringKlinger's DNA. This generally makes substitution more difficult. In addition, ElringKlinger has steadily broadened its customer base in recent years in order to reduce its dependence on individual customers.

Beyond this specifically defined risk, as a manufacturing company and supplier to the automotive sector, ElringKlinger is exposed to the warranty and product liability risks generally associated with this industry. The supply of non-compliant components may necessitate an exchange or recall of such parts, with corresponding costs and claims for damages. Furthermore, this may damage the company's reputation over the long term.

* Cf. glossary

In this context, the development of entirely new products for fields of application beyond the automobile industry or in the area of alternative drive technologies is associated with further potential risks.

ElringKlinger uses appropriate quality assurance systems to prevent and mitigate the aforementioned risks. As an element of the Group-wide risk management system, significant quality and warranty risks are covered to a large extent by insurance policies, e.g., product liability insurance. The type and scope of insurance cover is regularly reviewed and adjusted if necessary. Additionally, where possible, agreements on limitation of liability are concluded between ElringKlinger and the contracting party in question.

There are isolated risks within the Group with regard to inadequate product quality. In order to minimize these risks, ElringKlinger has introduced a variety of improvement measures at project and process levels. Cases of deficient quality are tackled, for example, by tightening up procurement specifications for input materials and by continuously upgrading production equipment and increasing the level of automation. The Group also optimizes its logistics processes.

Material and supplier risks

Overall, the prices of raw materials used by ElringKlinger are at an elevated level compared to previous years. This is partly due to the global trade conflicts involving drastic, short-term tariff increases on cross-border raw material transports. In this context, there are still potential risks of punitive, countervailing, or compensatory duties (anti-dumping and countervailing duties*) on raw materials imported into the USA. In the course of 2020, expectations regarding a financial impact became more pronounced due to growing market uncertainty. The risks created by excessive rises in material prices would have a direct and – depending on the extent of any such increases – potentially considerable impact on the Group.

ElringKlinger's central procurement unit works continuously to identify and implement optimization measures in order to counter the risks associated with rises in the cost of input materials. These measures include improving and standardizing internal processes across the Group and conducting ongoing reviews of procedures for selecting and approving suppliers. In addition, ElringKlinger responds actively to persistently higher raw material prices by optimizing the design of its products and improving its manufacturing processes.

In its negotiations with its raw material suppliers ElringKlinger generally concludes contractual agreements that are as long term as possible. Any additional quantities required are procured at prevailing market prices. In order to respond to the high level of raw material prices in fiscal 2020 and to be prepared for possible price declines, contracts with shorter terms were also agreed. Alloys such as nickel are exclusively traded on the stock exchange and cannot be fixed in framework agreements. In order to cushion volatility associated with nickel prices, hedging transactions are concluded in a targeted manner.

As part of a range of measures to reduce its dependence on material price rises over the medium to long term, ElringKlinger negotiates cost escalation clauses in its customer contracts. If this is not possible, price rises that exceed cost estimates have to be passed on to customers where this is considered feasible. This involves a risk that additional costs cannot be passed on in full or only with some delay.

Although high material prices have an adverse impact on the Group's earnings, ElringKlinger benefits from the same high prices when it sells the metal residues produced during stamping processes. All metal residues are recycled and sold by the Group's in-house scrap management unit. Potential cost increases can be offset, at least in part, by the proceeds from scrap sold in this way.

As part of its risk assessment, ElringKlinger monitors not only trends relating to material prices but also the actual availability of materials. In order to mitigate risks associated with bottlenecks or non-deliveries to the largest extent possible, ElringKlinger relies on close collaboration with its suppliers over the long term. The Group makes a point of planning its material requirements well in advance and is committed to a multi-supplier strategy in order to mitigate the risk of production-related disruption or downtime due to disruptions within the supply chain. The intention is that this shall also take effect if one of the suppliers runs into delivery difficulties for financial reasons. To the largest extent possible, ElringKlinger develops alternatives for commodities and materials that are either in short supply or that are subject to severe fluctuations in price.

Alongside the materials needed for its traditional product portfolio (e.g., alloyed high-grade steel, C-steel, aluminum, polyamides*, and elastomers), the Group uses other types of commodities and materials for battery and fuel cell* components and systems in its New Business Areas. With regard to these inputs, it is difficult to estimate future volumes, price movements, and supplier structures based on the information currently available, partly because of the lack of certainty over future demand for vehicles with alternative drive systems. ElringKlinger counters this uncertainty and therefore minimizes its exposure to risk by minimizing its own inventories and by also requesting these input materials as required from the supplier's consignment warehouse, i. e., the supplier retains ownership of the goods until they are requested by ElringKlinger.

Labor cost risks

At 42.7% (2019: 41.6%), a significant proportion of the Group's overall workforce is employed at sites in Germany. Fundamentally, persistent wage increases at a domestic level or the reduction in working hours covered by collective bargaining agreements could have a visibly negative impact on earnings performance within the Group. Therefore, as illustrated by the progression of staff cost ratios at German sites, the competitive position of ElringKlinger AG would deteriorate further in relation to its international peers. The next round of collective bargaining is scheduled to take place in 2021; it will also be influenced by the effects of the coronavirus pandemic. In addition, there is a risk of strikes. If comparatively high wage settlements or corresponding equivalents such as lower working hours for the same pay were to be enforced, Germany as an industrial location, including ElringKlinger's domestic sites, would continue to feel the adverse effects. Similar risks associated with union-led bargaining also exist at foreign sites.

The level of labor costs in emerging countries such as China, South Korea, India, or Turkey, where on average around 14% (2019: around 15%) of ElringKlinger's workforce is employed, is well below the Group average. A positive aspect is that both revenue and staffing levels in these regions are expanding at a faster rate than in Germany. In these markets too, however, the dynamics of wage development are to be viewed critically with regard to the financial performance of the regional companies.

In the event of an unexpectedly strong downturn in customer demand, the staff cost ratio may increase dramatically. Capacity constraints caused by a possible outage of machinery may also result in higher staff costs (temporary labor, night-shifts, and weekend work). ElringKlinger has a number of instruments at its disposal with regard to strategic HR planning (such as working time accounts, shift systems, and temporary employment contracts) that allow the company to respond rapidly and flexibly to such scenarios.

The Group has offset the more pronounced wage costs seen in recent years by making substantial capital investments and implementing continuous measures aimed at raising efficiency levels in production in order to safeguard its international competitiveness and retain jobs in the domestic market.

New customer risks

The transition within the automotive industry from the combustion engine to alternative drives is also accompanied by more pronounced changes to the customer structure: alongside the established car makers, new, innovative manufacturers are increasingly appearing – focusing exclusively on vehicle models with alternative drives and/or pursuing entirely new mobility concepts. Many of these new industry players are start-ups. It is difficult to predict whether such challengers will succeed. This depends on their development capacity and their ability to negotiate adequate financing. Consequently, some of these new manufacturers may fail to break into the market if they cannot secure continued financing and/or fail to generate sufficient demand or acceptance among potential customers.

As a consequence, ElringKlinger may lose existing development projects or orders secured from such players. Additionally, the company may potentially be adversely affected in financial terms in the form of expense items. The Group has established business relationships with several customers in this category and therefore classes the corresponding projects as being exposed to the risks outlined above. In these cases, ElringKlinger counters the increased counterparty risk with a risk-minimizing customer strategy. Among other things, the aim is to agree payment terms that correspond largely to project progression and therefore cover any investment and development amounts outstanding, in addition to closely monitoring business performance.

* Cf. glossary

Operational risks

ElringKlinger is a production company that manufactures products characterized by a high level of technological sophistication. These include, for example, multilayer cylinder-head gaskets with precision-stamped stopper geometries, thick-walled sheet metal formed parts with rolled serrations, thermoplastic fiber composites for structural applications, and structural components in hybrid technology. The associated processes often require special machines that have to meet certain technical standards and cannot be supplied by every machine manufacturer. In some areas, these machines also lack redundancy in production and therefore constitute a risk for the Group. The failure of these machines could jeopardize contractually agreed output quantities and give rise to recourse claims from customers.

To counter such operational risks, risk matrices are generated and technical improvements are implemented.

Technology risks

The automotive industry is undergoing far-reaching transformation. While global car production is generally expected to increase over the next few years, growth is attributed primarily to new drive technologies, with strong growth rates anticipated with regard to hybrid and all-electric vehicles.

The business model of the ElringKlinger Group is based on a culture of excellence in innovation and the principle of technology leadership. The company's operations are tailored to the development of products that are technologically sophisticated and to the manufacture of such goods at a high level of productivity. On this basis, the Group aims to achieve long-term growth rates in excess of global automobile production output (cf. "Overview of ElringKlinger's Activities and Structure").

At around 5 to 6% of its total Group revenue, ElringKlinger invests a substantial sum in research and development in order to develop new technologies and innovations. Additionally, substantial investments have been channeled into the expansion of the Group's technology portfolio in recent years. ElringKlinger protects significant technologies and processes in the form of property rights and patents in order to combat the risk of damages caused by me-too products and imitations.

The company focuses its R&D activities firmly on key areas of interest currently driving the automotive industry, namely the optimization of vehicle weight by means of lightweight structural components and the development of alternative drive technologies. ElringKlinger positioned itself within the market for alternative drive systems at an early stage and with considerable capital expenditure, be it in the field of battery technology or fuel cell solutions.

The technology risks of significance to the ElringKlinger Group consist of unforeseeable changes within the area of drive technologies as well as excessively stringent legislation with regard to emission standards that do not correspond to the transformation process scenarios anticipated to date. Even if, as planned, the E-Mobility business area generates a greater contribution to total Group revenue over the next few years, any abrupt shift in technology or further tightening of the regulations on CO_2 emissions would have a substantial impact on revenue from the Group's traditional business areas. In turn, this may possibly lead to severe pressure on prices. ElringKlinger counters these risks by consistently expanding its product portfolio, which in addition to traditional combustion engine components also includes components, modules, and systems for alternative drive technologies such as batteries or fuel cells.

In order not to lose its market position relating to components for established drive technologies, competitors would have to enter the respective markets. In this context, substantial investments would be needed to introduce the requisite production systems. The machinery used by ElringKlinger is usually designed according to company specifications, i.e., it is not available as a standardized solution within the marketplace. To be financially viable, it is essential that plants produce large volumes as part of manufacturing operations. Experience has shown that initial orders placed with new suppliers tend to be relatively small in scale. However, these volumes are not sufficiently high to cover costs.

Personnel risks

The deployment of qualified and motivated employees is essential when it comes to successfully shaping the process of transition within the automotive industry. In those business units currently driving transformation within the Group it is considered particularly important to retain knowledge at a Group level, while at the same time attracting new, creative minds to the Group in order to further develop existing expertise. This is especially true for key personnel working on next-generation technologies. However, this is comparatively difficult at some locations and in certain specialist areas, e.g., due to the low availability of high-caliber staff or pronounced wage competition.

In order to keep the staff turnover rate as low as possible and to be successful in its efforts to compete for talent and qualified applicants, ElringKlinger attaches great importance to a socially balanced and motivating working environment. In this context, the Group can differentiate itself from the competition by offering attractive conditions. In addition, targeted HR marketing measures have long been part of ElringKlinger's concept for attracting young talent to the Group. The company attends career fairs, where it showcases itself as an attractive employer to graduates – insofar as such events can take place in the context of the pandemic. It also meets the needs of university and college students by offering internships and dissertation opportunities in order to retain their services in the long term. Additionally, the Group has taken on young people as technical and commercial apprentices to secure talent for the future. In order to retain staff in the long term, ElringKlinger offers internal and external training courses and programs for personal advancement.

Beyond the material risks outlined above, further overarching risks have to be taken into account which, as part of the bottom-up scenario analysis, do not derive an individual risk relating to the operating units that is subsequently simulated but which are instead primarily relevant at Group level. They are determined via the risk categories covered by the corporate functions. A probability of occurrence of 10% is considered "low," one of 40% is classified as "medium," and one of 80% is deemed "high." The potential financial impact is categorized on the basis of criteria, ranging from "insignificant" to "significant." In this context, in the event of occurrence "insignificant" refers to a potential impact on Group earnings before interest and taxes of less than 5%, "moderate" between 5 and 10%, and "significant" in excess of 10%. The overall potential with regard to higher-level risks in relation to the respective category is derived from the interaction of probability of occurrence and potential financial impact. The assessment of higher-level risks was performed as of the end of the reporting period, i.e., December 31, 2020. Reporting in respect of risk is based on a period of one year.

General internal risks, work-related accidents, fire

Among the general internal risks that are not connected directly to the business model of the ElringKlinger Group are, in particular, work-related accidents and the risk of fires at production facilities.

By applying preventative measures such as the implementation of safety standards applicable throughout the Group and the provision of safety briefings for personnel, ElringKlinger endeavors to mitigate the risk of work-related accidents to the largest extent possible. Where accidents do occur, the reasons and circumstances are investigated in depth and existing safety standards are adjusted accordingly in order to ensure a consistently high level of protection.

The risk of a fire occurring at an operating site of the ElringKlinger Group is considered to be comparatively low. Fundamentally, however, it cannot be ruled out entirely.

Risk profile of higher-level risks relating to the ElringKlinger Group

Risk categories	Probability of occurrence	Potential financial impact
General internal risks, work-related accidents, fire	Low	Moderate
Legal risks/Compliance risks	Low	Moderate
IT risks	Medium	Significant
External growth/acquisitions/joint ventures/divestments	Low	Moderate
Economic and industry risks	High	Significant
Political risks	Medium	Moderate

Alongside the risk of personal injury, a fire – with the associated downtime of operations over an extended period – poses the risk of substantial damage to property and significant costs for the repurchase of production machinery and equipment. Production downtime and disruption to the supply of customers, however, can be ruled out to a large extent, as the Group is able to draw on its international manufacturing network for the purpose of offsetting a capacity shortfall through production at an alternative site or transferring such activities on a temporary basis.

The Group addresses the possible financial impact of fire damage well in advance through appropriate fire protection insurance policies. Insurance appraisers compile fire protection reports at all of the Group's operating plants. The suggestions included in the reports with regard to fire protection improvements are analyzed and implemented.

Legal risks/Compliance risks

Beyond the risks already discussed in the section dealing with warranty risks, the ElringKlinger Group is exposed to further legal risks attributable to its business model and the size of the Group. As an element of the risk management system, significant risks are largely covered by insurance policies, such as the warranty and product liability risks described above. Furthermore, ElringKlinger addresses its exposure to legal risks by recognizing provisions in its separate and consolidated financial statements. Such a provision was additionally recognized for individual items in 2020. Compared with the previous year, there were no other significant risks in the period under review. Likewise, ElringKlinger is at present not exposed to any significant litigation risks.

The structure of the compliance system was outlined earlier in the description of the risk management system. Risks can occur at both the parent company and the subsidiaries as a result of unlawful actions. In view of the compliance system instruments put in place and the ElringKlinger culture applied and embraced by the company, the probability of occurrence in respect of significant infringements can be classified as low but cannot be ruled out entirely. The financial effects on Group earnings are difficult to specify; depending on the respective case, they may reach a scale that could be considered significant.

IT risks

In the digital age, companies' IT infrastructure is constantly exposed to potential risks such as cyber crime and hacking attacks. The confidentiality, integrity, and availability of data are considered to be a precious commodity. Protection within this area requires an increasing number of preventative and corrective measures. Any disruption to IT systems and application software can lead to tangible delays to individual processes – from the handling of purchase orders and ongoing production control through to activities in the supply chain. Such a scenario would have a negative impact on operations, which may also affect revenue and earnings. Successful attacks by Trojans, which cannot be ruled out in principle and always represent a potential threat, would have similar effects.

The Group aims to minimize these risks by maintaining an IT infrastructure divided into a strategic and an operational unit. Data that are of importance to operational processes are always stored twice or redundant systems are deployed. Additional back-up systems and bridging solutions are also in place to deal with potential risks for specific projects and processes. In addition, employees are constantly sensitized and trained for malware or Trojan attacks through simulation measures.

Staff access to confidential data is controlled by means of scalable access authorizations. State-of-the-art security software applications are used for the purpose of protecting the company against unauthorized access via external sources.

The company's headquarters in Dettingen/Erms, Germany, has two data centers operating independently of each other. For security reasons, these data centers are accommodated in different buildings, i. e., at two separate locations. In taking this approach, the company protects itself against system failure and data loss. Furthermore, all data pertaining to the international sites are backed up at a central location.

The Group is TISAX-certified at numerous sites in Germany. This is a standard within the automotive industry that harmonizes the level of information security throughout the value and supply chain.

External growth/acquisitions/joint ventures/divestments

ElringKlinger is generally receptive to complementary acquisitions and targeted takeovers in order to enter new technology fields or to better cultivate regional markets. Acquisitions or joint ventures are fundamentally associated with the risk that the acquired entities may fall short of specified targets or fail to meet them in the planned time frame. This may necessitate unforeseen restructuring measures that – at least temporarily – would exert downward pressure on the Group's profit margin. In addition, the level of new investment required in this area may be higher than originally planned. This, in turn, would lead to more substantial funding requirements. Technology purchases also pose the fundamental risk that the performance originally expected by the company may not be achievable in full or to the extent desired. Thus, there is a risk that the products may ultimately fail to meet customer expectations.

Prior to an acquisition or joint venture, ElringKlinger invariably conducts extensive due diligence investigations. As a matter of principle, all projects are also reviewed by a company and/or external team of experts. Financial plans and technical details are checked and evaluated thoroughly for plausibility. As part of mandatory annual impairment tests, it may be necessary to recognize impairment losses in connection with goodwill or investees, which would in turn adversely affect annual Group earnings.

Similarly, risk exposure also occurs in the context of divestments already made or potentially yet to be made with regard to subsidiaries and/or areas of business. In this context, fundamentally, there is a risk, for example, of subsequent contractual commitments or operational obligations; this risk is mitigated by extensive legal reviews of the contractual framework in advance of such a transaction.

Economic and industry risks

The global vehicle markets tend to perform in line with prevailing economic trends. A substantial downturn in the economy represents a risk to demand and, ultimately, to vehicle production. This, in turn, could possibly result in lower demand for the product portfolio of the ElringKlinger Group.

Based on the Group's most recent year-end assessment, there is a risk of a general slowdown in global market growth. Having already caused a significant decline in demand worldwide in 2020, the coronavirus pandemic will remain a major influencing factor in 2021. In addition, there are potential global trade conflicts, especially between the United States and China as key economic powers.

Due to its customer structure, ElringKlinger is not dependent on specific markets or individual manufacturers. Given its global presence with production and sales locations in 21 countries, the Group is relatively well placed to handle potential stagnation or waning demand in specific vehicle markets. Therefore, the effects of an economic slump in a particular region can be offset at least in part. Due to its cost structures, ElringKlinger would be able to respond immediately to market conditions in the event of more severe economic turbulence. Instruments available to the company include flexitime accounts and flexible shift models as well as the option of issuing an application for short-time work. Furthermore, the company can react to changing market conditions by adjusting its staffing levels to demand patterns and by pooling the production quantities of individual plants. The central purchasing department works in close cooperation with suppliers for the purpose of continuously assessing and adjusting procurement volumes. ElringKlinger factors in economic risks to an appropriate extent at the forward planning stage. The company always takes a cautious view of each macroeconomic scenario when drawing up budgets.

The far-reaching transformation of the automotive sector gives rise to industry-specific risks, which, given ElringKlinger's product portfolio, mainly relate to the speed of change from internal combustion engines to alternative drive systems such as batteries or fuel cells. If the speed of transition decelerates, the Group will be able to act in line with its established market position for combustion engine components. In response to a more dynamic pace of change, the company has a wide range of products for alternative drive systems in its portfolio, such as cell contact systems*, pressure equalization elements, bipolar plates*, disk carriers, or metal-elastomer seals for batteries. The ElringKlinger Group aligned its product range to the requirements of all types of drive system at a very early stage.

Diesel technology continues to be a major topic of public debate. The resulting uncertainty among end consumers is having a noticeable effect on purchasing behavior: the diesel share of new vehicle registrations is significantly lower than in previous years. This does not have a major impact on ElringKlinger, as most of the company's product range is not dependent on a particular fuel type. However, it is

* Cf. glossary

impossible to rule out specific repercussions for the automotive industry as a whole, also as a result of the increasing number of driving bans in major German cities.

Political risks

Fundamentally, there is the potential that political decisions taken by national or international lawmakers will have a significant impact on the future business activities of the ElringKlinger Group. The same consequences can cause unstable political situations. Additionally, new laws and regulations can have a direct or indirect impact on technology trends and on the Group's sales regions.

Due to the increasingly noticeable effects of climate change, the issue of environmental protection has become more significant. As a result, various social initiatives have formed – evolving to some extent on the back of dissatisfaction with the current lack of desire among ruling political parties to pursue change. Overall, this has raised awareness of climate change and measures to protect the earth and has become part of the social discourse. Failure to deal with climate change in a targeted manner is considered to be a significant risk. Overall, political radicalization of the issue and/or far-reaching reactive measures at the expense of the automotive industry could have consequences for the entire industry.

At a geopolitical level, there are numerous trouble spots around the world. The situation remains volatile in large parts of the Middle East, despite recent peace treaties signed between Israel and other states in the region, such as the United Arab Emirates or Bahrain. Rivalries are being revived – partly on the basis of well-equipped armed forces – and tensions remain high on a daily basis. The North African countries, especially Libya, also remain politically unstable.

For ElringKlinger, all these regions present certain sales risks. As regards the Original Equipment segment, these regions are of no particular relevance to business activities. However, North Africa and the Middle East are core regions for the Group's Aftermarket segment, which is therefore exposed to a general risk in terms of revenue. As sales in these regions are billed in euros, customers' restricted access to foreign currency could result in delayed payments or, in the worst-case scenario, lead to default on such payments.

Given the outcome of the US presidential election in November 2020, it remains to be seen how the change in administration will affect US trade policy. Indeed, the newly formed government may not necessarily feel inclined to reverse recently imposed tariffs and duties. Moreover, while new US import tariffs on raw materials would not appear to be likely, they cannot be ruled out entirely.

The United Kingdom's exit from the European Union ("Brexit") has been completed and a withdrawal agreement concluded. However, due to the effects of the pandemic, its is impossible to rule out specific risks relating to the establishment of cross-border trade under the new agreement. This is evident in particular in the situation relating to the border between Northern Ireland and the Republic of Ireland. While the ElringKlinger Group is undoubtedly affected by the issue of Brexit given its existing customer relationships and UK-based operations, the overall extent of risk exposure associated with its UK subsidiary is considered manageable in relation to the Group as a whole – particularly against the backdrop of the agreement that has now been concluded.

Opportunities

The opportunities were graded in qualitative terms according to the probability of occurrence and the potential financial impact. The assessment of opportunities was performed in the same manner as when assessing higher-level risks.

Profile of opportunities relating to the ElringKlinger Group

Categories of opportunities	Probability of occurrence	Potential financial impact
Climate change/Emission laws	High	Significant
Technology trends	High	Significant
Extension of product and service portfolio	High	Significant
New sales markets	High	Significant
Industry consolidation/M&A	Medium	Moderate

Climate change/Emission laws

Debate surrounding climate change and environmental protection has intensified, even against the backdrop of the coronavirus pandemic, and is an issue of importance to society as a whole. Although the pandemic has been grabbing the headlines recently, in many areas of life, particularly in Europe, there is evidence of heightened awareness in politics, business, and the population – whether through stricter environmental regulations, a greater focus on environmental indicators or sustainability projects, or through broad-based protest movements for eco-friendly action.

This also affects the automobile industry. The reduction of emissions continues to be at the heart of the transformation process, which is also influenced by environmental factors such as sustainability relating to drive technology. The European Union is subject to strict emission regulations that are more far-reaching than those in many other regions of the world. In addition, the EU Commission is currently working on new regulations that will further tighten existing standards. Countries in North America and Asia have also introduced regulations – to varying degrees – aimed at limiting emissions. Many emerging countries also tend to look to standards implemented by industrialized countries when drawing up their own exhaust gas legislation. In addition, more and more countries in Europe have announced that they will ban classic combustion engines effective from a certain date in order to limit pollutants and greenhouse gas emissions, the aim being to protect the climate and promote sustainable drive technologies.

For the ElringKlinger Group this legislative framework offers business potential for the coming years. The trend toward fuel-efficient, low-emission engines is further heightening the requirements for sealing technology and shielding systems. This translates into greater demand for products that help manufacturers to meet the more stringent standards.

Hybrid vehicles, i. e., the combination of a combustion engine and an electric motor, are gaining market share. Many car makers are extending their product portfolio to include such hybrids, the aim being to achieve the strict CO_2 limits applied to their vehicle fleets. For ElringKlinger, hybrid concepts open up the opportunity to generate higher revenue per vehicle. Alongside the components installed in combustion engines, hybrids provide the company with the chance to market components for the battery unit of the powertrain, e.g., cell contact systems* and pressure equalization modules.

In addition, government initiatives such as the "National Hydrogen Strategy" in Germany or the European funding project "IPCEI Battery II" offer significant opportunities. For one thing, this illustrates that state institutions are now focusing on these technologies – and that such solutions are receiving political support. For example, the National Hydrogen Strategy is aimed, among other things, at establishing hydrogen technologies as core elements of the energy transition and at strengthening German companies and their competitiveness. At the same time, these initiatives provide government funding for the next-generation technologies embraced by ElringKlinger, which also unlocks the potential of targeted support for the Group. For example, ElringKlinger was awarded a contract relating to the "IPCEI Battery II" project.

In addition to benefiting from public-sector initiatives, new drive technologies also have access to government subsidies. Vehicles fitted with an electric drive, for example, receive a concession relating to the taxation of company cars. Incentives such as these are designed to contribute to a broad shift in consumer thinking and more extensive sales of passenger cars powered by alternative drive units.

The shift towards battery technology within the automotive industry continues to accelerate. Gradually, models are being introduced to the market that are either partially or fully electrically powered. Further progress in the development of battery technology, e.g., to improve vehicle range and bring down the price, would help to stimulate demand and persuade buyers to invest in electric vehicles. ElringKlinger would benefit directly from growing sales in the e-mobility market as its product portfolio includes a range of components for battery-powered vehicles. In fact, the company's E-Mobility unit has been supplying various car makers and automotive suppliers with series products for battery-driven and hybrid models for some years.

Fuel cell technology also plays an important role when it comes to alternative powertrains. In the truck and bus sector, in particular, fuel cells are set to become more prominent in the medium term. In contrast to battery technology, the fuel cell offers the advantage of extended range. What is more, the hydrogen required for these drive systems can be distributed via the existing network of service stations. ElringKlinger was quick off the mark in its efforts to embrace fuel cell technology and now supplies various components as well as complete fuel cell stacks* or systems. To this end,

* Cf. glossary

the Group concluded two agreements in the 2020 financial year that will drive forward development and market penetration. First, ElringKlinger entered into a strategic partnership with Airbus for the purpose of refining and validating fuel cell technology for the aviation industry. Secondly, ElringKlinger has established a subsidiary, in which French automotive supplier Plastic Omnium has acquired an interest. The joint aim is to tap into the global market for fuel cell stacks and components. Against this backdrop, the ElringKlinger Group sees considerable potential for the coming years. After an initial ramp-up phase over the next few years, the company expects to achieve more in-depth market penetration from 2025 onwards.

The revenue and earnings potential associated with the issue of climate change and greenhouse gas prevention can be categorized as significant for the ElringKlinger Group. The potential for ElringKlinger to exploit these market opportunities in the medium term, at the latest, by drawing on its existing product portfolio and R&D expertise is considered highly probable.

Technology trends

As a result of increasingly strict international emissions standards, the probability of the technology trends outlined above actually coming to fruition is classed by the ElringKlinger Group as high. The industry will have to focus on efficient engines, lightweight engineering, and the use of alternative drive technologies if it is to have any chance of achieving the ambitious CO_2 targets set by policymakers.

Insofar as ElringKlinger continues to succeed in developing new solutions to tackle these issues and rolling them out onto the market by utilizing its existing expertise relating to materials processing, tooling, and development and production processes, the prospects for revenue and earnings growth of the Group can be categorized as significant.

If the shift occurs more rapidly than currently forecast, the Group can market its existing portfolio of products covering different areas of alternative drive technology and harness the transition to boost its revenue. The battery components and systems, fuel cell stacks and systems, and complete electric drive units developed by ElringKlinger are ready for full market rollout.

Extension of product and service portfolio

The majority of the business units within the Group are well placed to apply their decades-long expertise and existing know-how in materials and processes for the purpose of transforming the product range or expanding the portfolio in a targeted manner.

The possibilities open to the Group have already been discussed extensively in the chapter on Research and Development. By way of example, these include the Group's expertise in the design of new lightweight materials and in alternative drive technologies for battery and fuel cell systems. Beyond the automotive industry, new opportunities are presenting themselves continuously for the area of Engineered Plastics and PTFE* components, e.g., in the industrial sector as a whole or in the area of medical technology.

All the Group's business units are working proactively on the expansion of their product and service portfolios with a view to meeting the organic revenue growth target that exceeds global expansion in automobile production.

New sales markets

Opportunities for significant revenue and earnings growth in the coming years are offered by additional incoming orders, including high-volume orders, especially for the two promising pillars of electromobility, i.e., fuel cell and battery technology, and structural lightweight construction. First and foremost in this context is the Asian vehicle market, where numerous initiatives for the development of battery and fuel-cell-powered vehicles have emerged. Also due to existing projects in this region, the Group sees the potential for considerable growth in sales volumes in the coming years.

There are opportunities for further expansion within the Aftermarket business, particularly by tapping new sales regions in North America and in Asia. Trading under the "Elring – Das Original" brand, for instance, the Aftermarket segment within the ElringKlinger Group has been ratcheting up its activities in Asia. The Group has also systematically improved the processes and structures in its Aftermarket business in North America.

For the Engineered Plastics segment, with its product portfolio based around the high-performance plastic PTFE, future growth potential is also opening up in the Asian and US markets.

Industry consolidation/M&A

In the medium term, globalization poses significant challenges for many small and medium-sized enterprises that currently have either an insufficient international presence or none whatsoever. They have to invest more in research and development due to the far-reaching transformation process and are increasingly confronted with financing risks due to the numerous changes seen within the markets, e.g., in relation to customer structures or their own share of value added. It can therefore be assumed that consolidation in the supply industry will continue in the coming years. Against this backdrop, the risk of insolvencies cannot be ruled out.

For the ElringKlinger Group, this continues to offer opportunities to extend its technology portfolio through targeted acquisitions or to establish a stronger competitive position through consolidation of individual product groups. In some cases, competitors also exit the market without the influence of consolidation processes. ElringKlinger will continue to monitor the market systematically in order to identify potential opportunities for acquisitions as early as possible and pursue them where this is deemed appropriate and financially viable. ElringKlinger may pursue growth opportunities through acquisitions in the coming years. The Group is focused on future-oriented areas of business, whereas further acquisitions relating to the classic fields of business centered around combustion engine technology are unlikely. The associated financial impact is difficult to quantify in advance. It may range from insignificant to very significant when measured on the basis of revenue and earnings contributions to the Group.

Overall assessment of risks and opportunities

Based on the optimized risk management system, the conclusion drawn by the Management Board from scrutinizing the opportunities and risks in their entirety is that the situation of the ElringKlinger Group in respect of risk exposure remains similar to that of the previous year, despite some changes in general conditions that have a direct impact on the automotive industry. Some of the risks to which the Group is exposed are of a geopolitical or external nature, and ElringKlinger therefore has either no or a very limited capacity to control these risks in an active manner. When weighing the relevance of risk in respect of the possible financial impact on Group earnings, the principal risks to which the ElringKlinger Group is exposed are, in particular, a sudden global slump in the market or changes that would also have an impact on the financial markets and exchange rates, an unforeseen transformation scenario relating to drive technology, and external attacks on the IT infrastructure. In addition, the wider pandemic situation is considered to be of relevance. A third wave of infection cannot be ruled out at present, neither for Germany nor for other countries. Indeed, reference has already been made to a third wave in some countries. The effects of such a wave cannot be precisely estimated at present, but economic losses due to government lockdown measures are considered to be likely, even if the extent of such an impact cannot be gauged at present. Assuming an end to the measures in spring as well as effective vaccinations for the population, it would appear likely that global car markets will continue to recover in the second half of the year at the latest.

Even though the pandemic has maintained its grip on the world, the macroeconomic environment as a whole remains relatively robust. The three principal car markets of Europe, North America, and China have seen some forward momentum following the interruptions to production in the first and second quarter of 2020. However, a return to pre-pandemic levels would appear unlikely in the short term. The political situation continues to be subject to risk in large parts of the Middle East. While the change of government in the United States is not necessarily expected to lead to a tightening of customs regulations for the time being, there is also no relief in sight with regard to the global trade conflict between the US and China. Arrangements have been made in respect of future trade relations between Britain and the European Union, but it will take time to fully coordinate the associated processes. Overall, each of these political risks may have a direct impact on the ElringKlinger Group.

* Cf. glossary

In addition, certain strategic and operational risks within the Group remain unchanged: these include the financial opportunities and risks relating to exchange rate fluctuations. The price of commodities of relevance to the Group is also at an elevated level. The process of transition seen within the automotive industry has meant changes to ElringKlinger's product portfolio. Products within the area of structural lightweighting and electromobility, which are considered promising fields for the future in strategic terms, are gaining in importance, while conventional products associated primarily with the combustion engine will become less relevant in the years ahead.

Drawing on the risk management system outlined above and its flexible cost structure, if necessary the ElringKlinger Group is in a position to respond promptly to any risks that may arise by implementing the corresponding risk management arrangements. The entity makes a point of not exposing itself to risks that may jeopardize the existence of the ElringKlinger Group. The Group's solid financial position and its continued ability to raise additional funds provides a protective shield in respect of ElringKlinger and its business model even in the event of a protracted market crisis, of which, however, – with the exception of the uncertainties as yet associated with the pandemic – there are no indications at present.

The principal opportunities for the Group relate to the technological trend toward fuel-efficient or emission-free drive systems, which is inextricably linked to the issue of climate change and a global drive toward stricter emission laws. The company invested at an early stage in areas such as battery and fuel cell technology that offer considerable potential going forward. Benefiting from products targeted at alternative drive systems and power supply as well as a number of new concepts in the field of lightweight construction, the Group can look forward to opportunities for growth around the globe. On this basis, ElringKlinger has charted an important route for the future of its fuel cell business in concluding strategic partnerships with Airbus and Plastic Omnium. In a joint effort, ElringKlinger and its partners will evolve this technology for use at Airbus and tap the market potential of fuel cell stacks and components worldwide.

There are currently no identifiable risks that might jeopardize the future existence of the company as a going concern, either in isolation or in conjunction with other factors. The Group is well positioned to actively seize any opportunities arising from long-term technology trends. Against the backdrop of a manageable risk profile, the ElringKlinger Group remains well positioned to continue outpacing global market growth in the coming years.

Compensation report

Compensation structure for members of the Management Board

Contracts for members of the Management Board are drawn up by the Personnel Committee of the Supervisory Board, negotiated with the respective members of the Management Board, and concluded following approval by the entire Supervisory Board. The Personnel Committee reviews the level of compensation at predefined intervals and advises the Supervisory Board on appropriate adjustments where required. These recommendations are decided upon by the full Supervisory Board. The recommendations take into account the size and international operations of the company, its economic and financial situation, its prospects for the future, the level and structure of management board compensation offered by similar companies, and the compensation structure in place in other areas of the company. In addition, the duties and performance of each member of the Management Board are taken into consideration. Compensation is set at a level that ensures it is competitive within the market for highly qualified managers and provides an incentive for successful work in a corporate structure with a strong focus on performance and achievement. If requested by the company, the Management Board members also take on responsibilities in affiliated entities. The Management Board members receive no additional compensation for such activities.

Management Board compensation for the 2020 financial year is presented in accordance with the provisions set out in two different standards: first, the applicable financial reporting standards (GAS 17) and secondly, the German Corporate Governance* Code in the version of February 7, 2017. In order to ensure comparability with the previous year, the presentation has been retained, regardless of the fact that this information is no longer required under the provisions of the new Code of December 16, 2019.

System of compensation

The compensation system applicable as from January 1, 2014, includes fixed and variable components. It comprises:

1. Annual fixed salary
2. Long-term incentive I (LTI I)
3. Long-term incentive II (LTI II)
4. Fringe benefits
5. D&O insurance
6. Retirement pension

Fixed annual salary

The fixed annual salary is a cash payment in respect of the current financial year; it takes into account the area of responsibility of the Management Board member in question and is paid in twelve monthly installments.

Long-term incentive I (LTI I) (annual management bonus)

LTI I is a variable component of compensation that is based on the average Group EBIT* (Group earnings before interest and taxes) of the last three financial years. The Management Board receives a percentage share of the three-year mean. LTI I is limited to a maximum of three times the amount of fixed compensation in the financial year in question. Payment of LTI I for a financial year ended occurs on approval of the separate and consolidated financial statements by the Supervisory Board in the subsequent year. On termination of the appointment as a Board member either at the request of the Management Board member in question or for good cause, entitlements to the variable compensation components of LTI I shall lapse as soon as the termination of said Board appointment comes into legal effect.

Long-term incentive II (LTI II)

The so-called Economic Value Added (EVA) bonus is granted to the Management Board as a constituent element of variable Management Board compensation that focuses on positive corporate performance over the long term. LTI II creates a long-term incentive for the Management Board to make a committed contribution to the success of the company. LTI II is a bonus based on the economic value added to the ElringKlinger Group. The Management Board receives a percentage of the economic value added calculated in respect of the company. The claim for the EVA bonus is granted at the beginning of a three-year benefit period and corresponds to the percentage of average economic value added in respect of the three subsequent financial years. The annual economic value added is calculated according to the following formula:

$$EVA = (EBIT \times (1 - T)) - (WACC \times \text{Capital Invested})$$

The first component is calculated on the basis of Group earnings before interest and taxes (Group EBIT) in respect of the financial year as well as the average Group tax rate (T).

The second component is computed by multiplying Group WACC by capital invested. The weighted average cost of capital (WACC) is calculated with the help of the basic interest rate, the market risk premium, and the beta factor. The beta factor represents the individual risk of a share in relation to the market index. It is determined as an average value of all the peer group companies. The credit spread for borrowing costs, as the premium on the risk-free basic interest rate, was derived from a peer group rating. Capital invested is calculated on the basis of Group equity plus net financial liabilities (i.e., Net debt*) as of January 1 of the financial year.

90% of the LTI II amount is paid out to the member of the Management Board in question, after the end of the three-year benefit period, in the subsequent year. Using the remaining 10% of the LTI II amount, the company purchases shares in ElringKlinger AG on behalf and for account of the Management Board member in question. The Management Board member is prohibited from accessing these shares for a further three years. Dividends and subscription rights are at the disposal of the Management Board member. The maximum amount granted from LTI II has been set at twice the amount of fixed compensation.

If a member of the Management Board enters the service of the company during the financial year and is not in employment for the company for a full twelve-month period, LTI II is reduced pro rata temporis.

On termination of a contract of service, the Management Board member in question may access the shares only after a period of twelve months subsequent to said termination. On termination of the appointment as a Board member either at the request of the Management Board member in question or for good cause, entitlements becoming applicable in the future in respect of the variable compensation components of LTI II shall lapse.

Fringe benefits

The taxable fringe benefits awarded to Management Board members mainly encompass the provision of a company car and mobile phone and communication devices as well as expense allowances and insurance benefits.

* Cf. glossary

D&O insurance

The members of the Management Board are covered by the Group's existing directors' and officers' liability insurance (D&O insurance). The agreed deductible corresponds to the minimum deductible set out in Section 93 (2) sentence 3 AktG (German Stock Corporation Act) in the applicable version.

Benefits for private pension provision

In 2020, the pension agreement was amended for three Management Board members and a benefit allowance was granted in respect of private pension provision. The benefit allowance is a fixed amount that is paid out annually. As a constituent part of non-performance-related remuneration, this is presented in the overview of Management Board compensation pursuant to the German Corporate Governance Code as amended on December 16, 2019.

Retirement pension

The contracts of the Management Board members of ElringKlinger AG include commitments in respect of an annual retirement pension. The new contracts for three Management Board members result in the following change: in addition to the benefit allowance for the private pension, the retirement pension has been contractually defined. It ranges from EUR 14 k to EUR 190 k annually.

In the case of the fourth member of the Management Board, no contract adjustment was made due to the limited term. His retirement pension continues to be calculated as a percentage of pensionable income. The percentage is dependent on the number of years of service as a Management Board member. The percentage rate is 3.2% of the last monthly fixed salary prior to leaving the company in respect of each full year of service. This percentage rate can rise to a maximum of 45%.

The entitlement to a retirement pension becomes applicable in respect of all contracts as soon as the contract of service has ended, but not before the individual has reached the age of 63. This entitlement also becomes applicable as soon as the Management Board member has reached the age that entitles him to receive full statutory pension benefits as well as in the event of occupational disability. Existing entitlements in respect of time spent as a salaried employee of the company are not factored in to this calculation and continue to apply.

If a member of the Management Board acts in a manner that is grossly negligent or displays gross negligence in his failure to act in specific instances and such actions or failures to act would result in significant damages to the Group, all entitlements to a retirement pension shall lapse; the same shall apply if the member of the Management Board enters the service of an entity that is in direct competition with the company.

The contracts include provisions governing surviving dependents' benefits. If a member of the Management Board dies during the period in which the employment contract is applicable or once the retirement benefits become due, his widow or dependent children shall receive a widow's or orphan's pension. The widow's pension amounts to 50% of the retirement pension of the deceased. The orphan's pension amounts to 20% of the widow's pension to the extent that a widow's pension is payable simultaneously and 40% of the widow's pension to the extent that no widow's pension is payable.

The widow's or orphan's pensions shall not exceed 60% of the amount to which the deceased would have been entitled if he had entered into retirement on the day of his death.

Review and adjustment of compensation

The salary components are to be reviewed by the company's Supervisory Board every two years. The Supervisory Board has the right to grant the Management Board special remuneration for exceptional accomplishments. The Supervisory Board is also authorized to reduce the Management Board's total compensation to an appropriate level if the company's situation deteriorates to such an extent that continued payment of the former remuneration would be unreasonable.

Severance pay cap

In the event of premature termination of the contract of service without good cause any payments potentially to be agreed with the Management Board member shall not exceed the amount equivalent to two years' annual compensation (severance pay cap) and the amount equivalent to compensation payable in respect of the remaining term of this contract of service.

In the event of a change of control any potential severance payment to be agreed by the parties shall not exceed 150% of the severance pay cap.

Loans to Management Board members

As in the previous year, no advances were granted to members of the Management Board in 2020. The company provided no guarantees or similar commitments.

Management Board compensation 2020

Management Board compensation for the 2020 financial year has been presented pursuant to the applicable financial reporting standards (GAS 17) as well as in accordance with the recommendations of the German Corporate Governance Code. Average EBIT of the years 2018–2020, totaling EUR 61,716 k, was used as a basis for calculating LTI I. Of this, the respective members of the Management Board receive the following percentage shares:

- Dr. Wolf 0.80%
- Becker 0.60%
- Drews 0.40%
- Jessulat 0.40%

Based on the calculation of the Economic Value Added (EVA) bonus (LTI II), no compensation is payable for the 2020 financial year, as the targeted return is below the Group WACC.

Management Board compensation 2020 pursuant to financial reporting standard GAS 17

Total Management Board compensation in accordance with Section 314 (1) no. 6a sentence 1 to 4 HGB* (German Commercial Code) is presented in the table below.

	Dr. Stefan Wolf		Theo Becker		Reiner Drews		Thomas Jessulat		Total	
in EUR k	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Short-term compensation										
Fixed compensation	995	593	440	485	600	299	665	365	2,700	1,742
Variable performance-related compensation	490	786	367	589	245	393	245	393	1,347	2,161
Total	**1,485**	**1,379**	**807**	**1,074**	**845**	**692**	**910**	**758**	**4,047**	**3,903**
Long-term compensation										
Long-term performance-related compensation	0	0	0	0	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total compensation	**1,485**	**1,379**	**807**	**1,074**	**845**	**692**	**910**	**758**	**4,047**	**3,903**

Pension obligations

The current service cost as well as the present value (DBO) of the pension provisions are as follows:

	Dr. Stefan Wolf		Theo Becker		Reiner Drews		Thomas Jessulat		Total	
in EUR k	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Current service cost	0	258	197	168	0	205	0	207	197	838
Present value (DBO)	6,243	6,897	5,487	4,951	381	462	817	1,026	12,928	13,336

Management Board compensation pursuant to German Corporate Governance Code

The following presentation of compensation granted to and received by the Management Board members for the 2020 financial year is based on the recommendations of the German Corporate Governance Code (GCGC) in the version dated December 16, 2019.

The following table presents benefits granted to the members of the Management Board in respect of the 2020 financial year, as disclosable under the provisions of the German Corporate Governance Code:

Benefits granted (Pursuant to GCGC)

	Dr. Stefan Wolf				Theo Becker			
in EUR k	2020	Min. 2020	Max. 2020	2019	2020	Min. 2020	Max. 2020	2019
Non-performance-based compensation								
Fixed annual salary	558	558	558	556	432	432	432	432
Fringe benefits	37	37	37	37	8	8	8	53
Benefits for private pension provision	400	400	400	0	0	0	0	0
Total	**995**	**995**	**995**	**593**	**440**	**440**	**440**	**485**
Performance-based compensation								
One-year variable compensation	490	0	1,674	786	367	0	1,296	589
Multi-year variable compensation 2017–2019	0	0	0	0	0	0	0	0
Multi-year variable compensation 2018–2020	0	0	0	0	0	0	0	0
Multi-year variable compensation 2019–2021	0	0	0	0	0	0	0	0
Multi-year variable compensation 2020–2022	0	0	1,116	0	0	0	864	0
Total	**490**	**0**	**2,790**	**786**	**367**	**0**	**2,160**	**589**
Service cost	0	0	0	258	197	197	197	168
Total compensation	**1,485**	**995**	**3,785**	**1,637**	**1,004**	**637**	**2,797**	**1,242**

In contrast to GAS 17, the table presents long-term compensation granted in 2020 for LTI II. In addition, the minimum and maximum amounts achievable have been listed. The benefit expense, which is presented in the form of the current service cost in the above table, has been included in total compensation.

The following table presents the allocation in/for the 2020 financial year. As regards fixed annual salary, fringe benefits, annual management bonus, and LTI II 2020, the table presents the allocation for the 2020 financial year.

Allocation pursuant to GCGC

	Dr. Stefan Wolf		Theo Becker	
in EUR k	2020	2019	2020	2019
Non-performance-based compensation				
Fixed annual salary	558	556	432	432
Fringe benefits	37	37	8	53
Benefits for private pension provision	400	0	0	0
Total	**995**	**593**	**440**	**485**
Performance-based compensation				
One-year variable compensation	490	786	367	589
Multi-year variable compensation 2017–2019	0	0	0	0
Multi-year variable compensation 2018–2020	0	0	0	0
Total	**490**	**786**	**367**	**589**
Service cost	0	258	197	168
Total compensation	**1,485**	**1,637**	**1,004**	**1,242**

	Reiner Drews				Thomas Jessulat				Total			
	2020	Min. 2020	Max. 2020	2019	2020	Min. 2020	Max. 2020	2019	2020	Min. 2020	Max. 2020	2019
	288	288	288	288	317	317	317	317	1,595	1,595	1,595	1,593
	12	12	12	11	48	48	48	48	105	105	105	149
	300	300	300	0	300	300	300	0	1,000	1,000	1,000	0
	600	**600**	**600**	**299**	**665**	**665**	**665**	**365**	**2,700**	**2,700**	**2,700**	**1,742**
	245	0	864	393	245	0	950	393	1,347	0	4,784	2,161
	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	576	0	0	0	634	0	0	0	3,190	0
	245	**0**	**1,440**	**393**	**245**	**0**	**1,584**	**393**	**1,347**	**0**	**7,974**	**2,161**
	0	0	0	205	0	0	0	207	197	197	197	838
	845	**600**	**2,040**	**897**	**910**	**665**	**2,249**	**965**	**4,244**	**2,897**	**10,871**	**4,741**

	Reiner Drews		Thomas Jessulat		Total	
	2020	2019	2020	2019	2020	2019
	288	288	317	317	1,595	1,593
	12	11	48	48	105	149
	300	0	300	0	1,000	0
	600	**299**	**665**	**365**	**2,700**	**1,742**
	245	393	245	393	1,347	2,161
	0	0	0	0	0	0
	0	0	0	0	0	0
	245	**393**	**245**	**393**	**1,347**	**2,161**
	0	205	0	207	197	838
	845	**897**	**910**	**965**	**4,244**	**4,741**

Compensation structure for members of the Supervisory Board

Supervisory Board compensation is governed by the provisions set out in Section 13 of the Articles of Association of ElringKlinger AG. The level of compensation is determined by the Annual General Meeting. The members of the Supervisory Board shall receive remuneration that is commensurate with their duties and the circumstances of the company. Within this context, the most recent resolution was passed on July 7, 2020. In accordance with the recommendations of the German Corporate Governance Code in the version of December 16, 2019, variable remuneration is no longer paid. In the past, the amount of variable compensation granted was equivalent to 0.02% of average Group earnings before taxes of the three preceding financial years, however only up to a maximum of EUR 40,000 per Supervisory Board member. The members of the Supervisory Board receive fixed compensation of EUR 50 k (2019: EUR 20 k) for each full financial year they have served on the Supervisory Board. Membership of a committee is remunerated at EUR 6 k (2019: EUR 4 k) and membership of the Audit Committee is remunerated at EUR 10 k (2019: EUR 4 k). Furthermore, the members of the Supervisory Board receive a lump-sum payment of EUR 1 k (2019: EUR 1 k) for each Supervisory Board meeting they attend. The chairperson of a committee shall receive double the aforementioned amounts. Compensation in respect of membership of the Mediation Committee shall only be payable in those cases in which the Committee has to be convened. No remuneration is paid to the Nomination Committee.

The role of the Supervisory Board Chairman and the role of his Deputy are taken into consideration when determining the level of compensation. The Chairman of the Supervisory Board receives three times (2019: two times) and the Deputy Chairman two times (2019: one-and-a-half times) the compensation paid to other Supervisory Board members. Expenses incurred by the Supervisory Board members are reimbursed to an appropriate extent. Supervisory Board members who have not held the post for a full financial year receive a pro rata amount of fixed compensation.

Supervisory Board compensation 2020

In the period under review total compensation for the Supervisory Board of ElringKlinger AG was EUR 889 k (2019: EUR 589 k). Additionally, travel expenses totaling EUR 2 k (2019: EUR 2 k) were reimbursed. Compensation payable to the individual members of the Supervisory Board was as follows:

	Fixed compensation		Variable compensation		Total compensation	
in EUR k	2020	2019	2020	2019	2020	2019
Klaus Eberhardt	183	70	0	30	183	100
Markus Siegers	114	46	0	23	114	69
Nadine Boguslawski	28	25	0	15	28	40
Armin Diez	65	29	0	15	65	44
Pasquale Formisano	28	24	0	15	28	39
Rita Forst	55	25	0	15	55	40
Andreas Wilhelm Kraut	55	23	0	15	55	38
Helmut P. Merch	37	0	0	0	37	0
Gerald Müller	55	25	0	15	55	40
Paula Monteiro-Munz	55	29	0	15	55	44
Barbara Resch	27	0	0	0	27	0
Prof. Hans-Ulrich Sachs	28	25	0	15	28	40
Gabriele Sons	61	33	0	15	61	48
Manfred Strauß	71	32	0	15	71	47
Olcay Zeybek	27	0	0	0	27	0
Total compensation	**889**	**386**	**0**	**203**	**889**	**589**

Disclosures pursuant to Section 289a(1) and Section 315a HGB,

particularly with regard to share capital and disclosure of potential takeover obstacles

As of December 31, 2020, the nominal capital of ElringKlinger AG was EUR 63,359,990, divided into 63,359,990 registered shares, each furnished with one vote. The notional interest in the company's nominal capital is EUR 1.00 per registered share. Profits are distributed in accordance with Section 60 of the German Stock Corporation Act (Aktiengesetz – AktG) in conjunction with Section 23 no. 1 of the Articles of Association.

The persons or entities with a direct and/or indirect interest in capital who, according to the details of the Stock Register, held voting rights in excess of 10% as of December 31, 2020, are presented in the table below. These relate solely to interests attributable to family ownership.

Lechler Beteiligungs-GmbH, Stuttgart, Germany	Total of 28.943% (of which 18.912% is attributable to it under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG*))
KWL Beteiligungs-GmbH, Neuhausen auf den Fildern, Germany	Total of 28.943% (of which 28.939% is attributable to it under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))
Klaus Lechler Beteiligungs-GmbH, Neuhausen auf den Fildern, Germany	Total of 28.943% (of which 18.941% is attributable to it under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))
Elrena GmbH, Basel, Switzerland	Total of 28.943% (of which 20.038% is attributable to it under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))
Eroca AG, Basel, Switzerland	Total of 28.943% (of which 28.943% is attributable to it under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))
Lechler GmbH, Metzingen, Germany	Total 10.013%

No shareholder is equipped with special rights constituting controlling powers.

ElringKlinger does not operate any employee profit-sharing schemes.

The number of Management Board members is determined by the Supervisory Board (Section 7 of the Articles of Association). The appointment and removal of Management Board members is performed in accordance with Sections 84 and 85 of the German Stock Corporation Act (Aktiengesetz – AktG). The Articles of Association contain no regulations that could be considered non-compliant with the provisions set out by law as regards the conditions applicable to the appointment or removal of Management Board members.

As stipulated by Section 179 of the Stock Corporation Act in conjunction with Section 20 of the Articles of Association, all amendments to the Articles of Association require a resolution of the Annual General Meeting with a majority of three-quarters.

The Management Board is authorized to buy back company shares up to a total amount of 10% of share capital existing at the date on which this resolution was passed (July 7, 2020). This authorization remains valid until July 7, 2025.

Details relating to authorized capital and the utilization of authorized capital are included in the Notes.

ElringKlinger has not entered into any agreements containing a change of control provision that would apply in the event of a takeover bid.

There are no compensation agreements with members of the Management Board or employees in the event of a takeover bid.

* Cf. glossary

Corporate Governance Statement

The Corporate Governance* Statement pursuant to Section 315d in conjunction with Section 289f of the German Commercial Code (Handelsgesetzbuch – HGB*) has been published on the ElringKlinger website at www.elringklinger.com/en/company/corporate-governance.

Combined Non-Financial Report

For fiscal 2020, ElringKlinger has prepared a separate non-financial report for the exchange-listed parent company ElringKlinger AG in accordance with Section 289b HGB*, which has been combined with the separate non-financial Group report pursuant to Section 315b HGB. The combined non-financial report of ElringKlinger for the 2020 financial year will be published by April 30, 2021, on the corporate website at www.elringklinger.com/2020-nfb-en.

Report on Expected Developments

The general view among economists at the start of 2021 is that the global economy will experience a recovery as the year progresses. The International Monetary Fund (IMF) sees global economic output to possibly increase by 5.5%, although it also warns of great uncertainty. According to automotive industry experts, vehicle production is set to rise by around 13% after the downturns of the last year. The ElringKlinger Group anticipates organic revenue growth at roughly the same level and an EBIT margin of between approx. 4 and 5%.

Outlook – Market and Sector

Given the risks associated with the ongoing coronavirus pandemic, the outlook for 2021 remains highly uncertain. Now that many countries have launched vaccination programs, however, economists expect the global economy to start recovering as long as there are no further setbacks. The IMF estimates that global GDP could increase by 5.5% compared with the previous year. Despite its upbeat forecast, it warned that national economies were drifting further apart and stressed that the upswing was heavily dependent on maintaining an expansionary fiscal policy and extremely loose monetary policy. Economists expect Chinese GDP to continue to develop along the lines of its pre-crisis level. In the US, meanwhile, it is hoped that a planned stimulus package will help to build momentum. After falling back into recession due to a second lockdown in winter 2020/2021, the eurozone is also likely to see an upturn from spring onwards.

GDP growth projections

Year-on-year change in %	2020	Projections 2021	Projections 2022
World	**-3.5**	**5.5**	**4.2**
Advanced economies	-4.9	4.3	3.1
Emerging and developing countries	-2.4	6.3	5.0
Germany	-5.4	3.5	3.1
Eurozone	-7.2	4.2	3.6
USA	-3.4	5.1	2.5
Brazil	-4.5	3.6	2.6
China	2.3	8.1	5.6
India	-8.0	11.5	6.8
Japan	-5.1	3.1	2.4

Source: International Monetary Fund (Jan. 2021)

Automotive industry shows signs of recovery

The upward trend in vehicle markets that was first seen in the second half of 2020 is expected to continue in 2021. IHS experts currently anticipate year-on-year growth of 13.4% in global vehicle production to 84.6 million units, although this is still below the pre-crisis level of 89.0 million vehicles. Growth rates are likely to vary between regions. In Europe, where many countries remain in lockdown at the start of the year, vehicle production is expected to rise at a slower pace than in North America. ElringKlinger's own view is that markets will grow by around 13%.

The German Association of the Automotive Industry (VDA) predicts a slow recovery. Its view is that sales will remain badly affected by the pandemic in the first half of 2021 but will slowly pick up over the next six months. The current shortage of semiconductors could also hold back the recovery. Germany's passenger car market is expected to grow by 8% to 3.15 million vehicles, still well below the usual 3.5 million new registrations of recent years before the pandemic. New registrations are forecast to increase in Europe by 12% to 13.4 million passenger cars and in the US by 9% to 15.8 million units. China could see an 8% rise in new passenger car registrations, taking the figure to 21.4 million.

Light vehicle production

Million units

				Year-on-year change[2]	
Region	2020	2021	2022	2021	2022
Europe[1]	16.6	19.0	20.1	14.3%	5.8%
China	23.6	25.0	26.0	5.9%	3.9%
Japan/Korea	11.2	12.1	12.2	7.6%	0.7%
Middle East & Africa	1.8	2.0	2.1	14.1%	3.5%
North America	13.0	16.2	16.8	24.4%	3.4%
South America	2.2	3.0	3.3	32.9%	10.3%
South Asia	6.2	7.4	8.4	19.9%	12.8%
World[2]	**74.6**	**84.6**	**88.7**	**13.4%**	**4.8%**

Source: IHS (Feb. 2021)
[1] Incl. Russia
[2] Percentage figures and summation calculated on actual values (no rounding)

* Cf. glossary

Apart from dealing with the general macroeconomic situation, the automotive industry faces other challenges such as the current regulatory framework and fundamental shifts in patterns of mobility. At the end of 2020, as part of a broader package of CO_2 legislation, the European Union introduced a new cap of 95 g/km CO_2 on average fleet emissions for newly registered vehicles. Compared with the previous limit of 130 g/km, this is a major change. In combination with government incentive programs, it is accelerating the transition to e-mobility, especially in Europe. In response, manufacturers are expanding their range of models with hybrid or fully-electric drive systems.

Commercial vehicle markets head back up from a low base

The VDA expects the German heavy truck market to grow by 15% to around 78,000 vehicles. In Europe and North America, industry experts anticipate a strong recovery after substantial downturns in the previous year. On this basis, new registrations of heavy trucks in Europe (EU, EFTA*, and UK) and North America could increase by roughly 25% to 290,000 units.

Outlook – Company

Ongoing pandemic

Venturing into 2021, the world is still in the grip of the coronavirus pandemic that wreaked such havoc throughout the last year. Infection rates remain high, and many countries, especially in Europe, have decided to reintroduce precautionary measures or extend existing ones. Furthermore, scientists have identified mutations of the virus that can be transmitted more quickly and cause more acute symptoms. Experts believe the pandemic can be defeated with the help of vaccines that have proven highly effective in early studies. Although vaccination programs are being established worldwide, it will be some time before the protection they afford extends to whole populations.

Measures introduced to try and prevent the virus from spreading also restrict economic activity in those countries, in some cases severely, and could lead to a situation, after the economic devastation of the previous year, where the upswing forecast for 2021 is no longer as strong as originally anticipated. This economic fallout could also extend to the automotive markets.

Given this high degree of uncertainty and the many factors involved, it is very difficult to make predictions for the current fiscal year. External developments, e.g., new pandemic waves, delays in implementing vaccination strategies, and medical breakthroughs, could reshape current expectations in terms of the likely direction or scale of recovery.

Research and development activities as the basis for future innovation

As a technology-focused group, ElringKlinger's goal is to develop innovative solutions for its customers and in this way open up new areas of business. With this in mind, and against the backdrop of technological change in the automotive sector, the Group plans to channel around 5 to 6% of Group revenue (including capitalized amounts) into its research and development efforts.

Significant increase in orders over second half of 2020

After a massive decline in new orders during the first half of 2020 (down 40.4% compared with the first half of 2019), figures for the second half-year pointed to a recovery (up 14.2% compared with the second half of 2019). Despite this better news, it was simply not possible over the rest of the year to make up for the downturn in the second quarter (-54.1%). The total value of orders received by the Group in 2020 was EUR 1,483.1 million, 14.6% down on the previous year's total of EUR 1,737.2 million.

Without the headwind of exchange rate movements, the second-quarter decline (down 37.0%) and the improvement in the second half of the year (up 21.0%) would have been more favorable. If the figures are adjusted to exclude exchange-rate movements, the overall downturn for 2020 works out at just -9.7%.

Revenue trend roughly at market level

Due to the ongoing pandemic and many other factors, the current fiscal year is subject to a high degree of uncertainty. Both macroeconomic and industry-specific developments may have an impact. In light of these risks and opportunities, the Group currently expects organic growth in revenue over 2021 as a whole to be roughly in line with the increase in global vehicle production.

The automotive industry is undergoing a rapid transformation. Demand for new drive technologies is growing all the time. Based on the Group's plans, a number of larger-scale e-mobility orders will be ramping up in the near future. Reflecting the shift in its product portfolio over recent years, the Group's revenue structure will also change. Consequently, in the medium term, the Group expects organic growth in revenue to outpace global market growth.

The impact of exchange-rate movements is generally difficult to predict given ongoing volatility and a high degree of uncertainty. Acquisitions cannot be ruled out, even in the current financial year. All such options are under continuous review by management. The emphasis here is on companies that would either complement the Group's existing product portfolio or allow better access to certain markets. It is unlikely, however, that the scope of such transactions will exceed that of previous activities by a considerable extent. From today's perspective, it is also impossible to rule out divestments within subsegments that are not part of the Group's core business.

High commodity price levels

Global market prices for key raw materials used by ElringKlinger have risen in recent years, in some cases significantly. Driven by strong global demand, this trend has intensified since the beginning of 2021, especially for steel and, to a slightly lesser extent, for polyamides*, elastomers, and aluminum. Supply constraints on international freight markets are also driving up prices. Overall, depending on the raw material in question, ElringKlinger expects prices for its key materials to rise moderately or substantially to a sustained high level over the course of 2021.

With regard to personnel, reflecting the fall in demand caused by the pandemic, the Group has generally allowed non-permanent employment contracts to expire and scaled back its recruitment activities. If an economic recovery takes hold as anticipated, it can be assumed that the number of employees will rise again in line with capacity utilization.

Efficiency enhancement program to continue

An efficiency program was launched by the Management Board in 2019 in order to improve the Group's key financial indicators. The program will continue in 2021. It is specifically designed to strengthen the Group's operating free cash flow* and reduce its net financial liabilities by increasing profitability, optimizing net working capital*, and following a disciplined approach to capital investment.

Improvement in earnings

As part of this program, the Group will again focus on reining in staff costs in 2021, in addition to reducing material-related costs and roughly maintaining the level of non-personnel costs in relation to revenue. Overall, these measures are expected to result in an improvement in profitability – also taking into account the proceeds from the sale of the Austrian subsidiary to Plastic Omnium in 2021. Under the terms of the agreement, excluding transaction-related expenses, these proceeds should amount to EUR 15 million. In addition, the two partnerships with Airbus and Plastic Omnium are expected to prove beneficial to the development budget in the long term and generate orders for fuel cell* stacks.

If the economy and global car production recover as expected, the Group expects an EBIT margin* of around 4 to 5% for the 2021 financial year as a whole. As in the past, the Group anticipates that it will be in a position to gradually improve its EBIT margin in the medium term.

Further optimization of working capital

Net working capital comprises inventories as well as trade receivables and payables. As part of its program aimed at raising efficiency levels, the Group will continue to pursue the approach of extending payment terms in respect of liabilities, while reducing receivables and optimizing

* Cf. glossary

inventories. Overall, the Group anticipates a slight year-on-year reduction in net working capital at the end of 2021, which, as expected, will also be reflected in a lower net working capital ratio (net working capital as a percentage of Group revenue) in conjunction with projected revenue growth. In the medium term, the level of net working capital as a percentage of consolidated revenue is expected to be 25% at most.

Focused investment policy

Following the end of the investment cycle, the Group significantly reduced investments (in property, plant, and equipment and investment property) over the course of the past two years compared to previous years. The Group will continue to pursue this disciplined approach in the coming year, focusing primarily on investment measures directed at new drive technologies and lightweight construction. At the same time, it will actively manage investments in its long-standing business units. ElringKlinger always conducts thorough assessments concerning the necessity, timing of execution, and funding requirements of such measures. Overall, the Group anticipates an investment ratio (in property, plant, and equipment and investment property as a percentage of Group revenue) of around 6% for the current financial year. In the medium term, the range is expected to be between 5 and 7%.

Continuation of cash flow generation

Due to the structural improvement in the key financial indicators outlined above, the Group also expects to generate positive operating free cash flow at a sustainable level. Against the backdrop of the efficiency enhancement program, the Group's projections for the coming year point to operating free cash flow in the mid-double-digit million euro range. Operating free cash flow is also expected to be in positive territory in the medium term.

Further reduction in net financial liabilities

Benefiting from strong operating free cash flow, the Group was able to further reduce its net financial liabilities in the financial year just ended. The same route will be taken in 2021. Based on an expected improvement in earnings, the Group anticipates that it will also be able to improve its net debt* ratio (net financial liabilities in relation to EBITDA) in 2021 compared to the previous year. In the medium term, the target for this ratio is a figure of less than 2.

As regards its equity ratio, the Group remains committed in the short to medium term to a target range of 40 to 50% – a corridor within which it has been moving for several years.

Improvement in return on capital employed

The Group applies return on capital employed (ROCE*) for the purpose of measuring its profitability. Based on market information currently available and against the backdrop of the significant uncertainties at present, the Group expects a visible year-on-year improvement in its return on capital employed in the 2021 financial year. In the medium term, the Group anticipates a steady annual improvement in ROCE.

Original Equipment segment

With a share of around 80%, the Original Equipment segment makes a major contribution to Group revenue. Due to the nature of its product portfolio, this segment is heavily dependent on the direction taken by the automotive industry. The current financial year is characterized by significant uncertainties, while the pandemic continues to have an impact on economic activity as a whole. Overall, organic revenue is likely to develop in line with the trajectory of global car production. The EBIT margin is expected to be below that of the Group average.

Engineered Plastics segment

The Engineered Plastics segment covers activities relating to high-performance plastics. After the pandemic-related decline in demand, business is expected to pick up again in 2021. As a result, revenue is likely to grow. The EBIT margin is expected to remain well above the Group level.

Aftermarket segment

After a buoyant performance in 2020, the Group expects revenue in the Aftermarket segment to be approximately on a par with the prior-year figure. In this context, however, the high degree of uncertainty relating to currency movements, macroeconomic influences, and tensions over trade policy must also be taken into account. The EBIT margin will remain well above the Group average.

Parent company ElringKlinger AG

The parent company ElringKlinger AG contributes more than one third of consolidated revenues and thus plays a key role within the Group. After the pandemic-induced slump in demand last year, the Group expects business to recover in the current year 2021. In the coming years, ElringKlinger will generate additional sales revenue through newly established capacities relating to next-generation technologies. The new location in Neuffen will see the gradual ramp-up of orders for battery technology. Additionally, a battery assembly line is being installed in Thale. The larger-scale orders are not scheduled to commence in 2021 or will only start at a relatively slow pace. Taking into account the impact of the fuel cell partnership with Plastic Omnium, the parent company is therefore expected to see an overall improvement in revenue with a growth rate at least in the high single-digit percentage range.

The situation with regard to the company's order book is satisfactory. At EUR 412.7 million, order backlog as of December 31, 2020, was once again significantly higher than at the end of the previous year (EUR 391.3 million).

The efficiency enhancement program, which applies to the entire Group, is also being implemented at the parent company. While the company will benefit from streamlining measures relating to staff or non-personnel costs, these effects will be counteracted by factors such as persistently high commodity prices. Nevertheless, the EBIT margin for the parent company in 2021 is expected to be slightly above the previous year's level. ROCE is forecast to match the prior-year figure, especially as capital employed is expected to increase.

2021 outlook for the ElringKlinger Group

The following table presents the key Group figures for the 2021 outlook.

Significant financial control criteria		**Actual 2020**
Sales revenue	Organic approximately roughly at global market level	Organic: -11.7%
EBIT	Margin of around 4 to 5%	1.9%
ROCE	Visible year-on-year improvement	1.7%
Other control criteria and indicators		
R&D costs	Around 5 to 6% of Group revenue (incl. capitalization)	5.1%
Investments in property, plant, and equipment and investment property	Around 6% of Group revenue	3.9%
Net working capital	Slight year-on-year improvement (in % of Group revenue)	27.2%
Operating free cash flow	Positive in double-digit million euro range	EUR 164.7 million
Equity ratio	40 to 50% of total assets	41.4%
Net debt/EBITDA	Year-on-year improvement	2.5

Dettingen/Erms, March 25, 2021
The Management Board

Dr. Stefan Wolf
CEO

Theo Becker

Thomas Jessulat

Reiner Drews

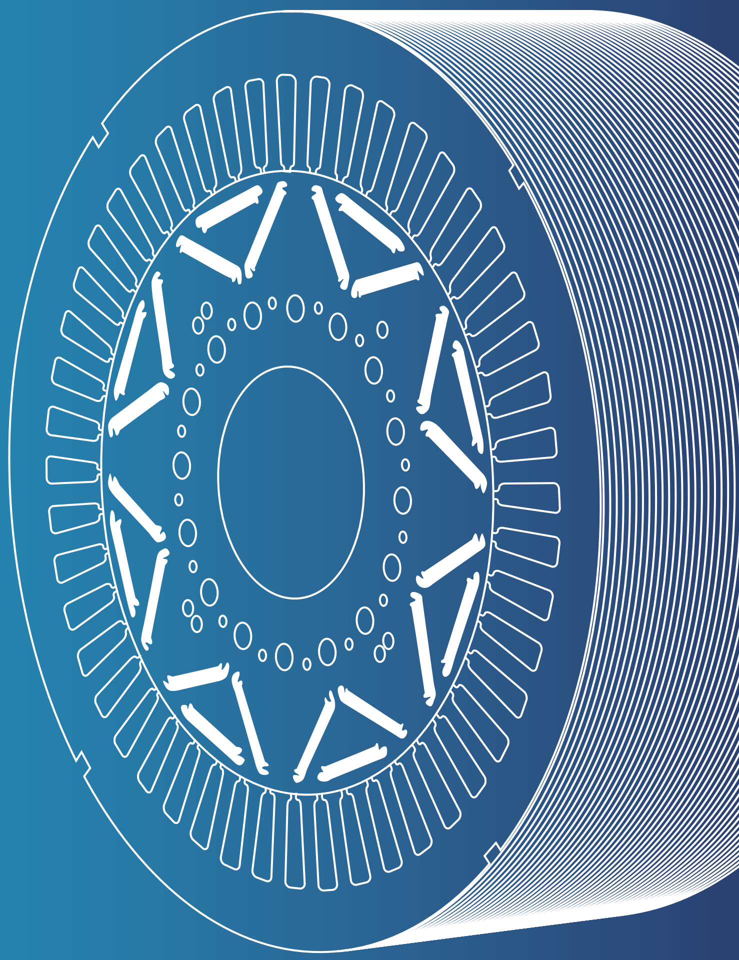
Consolidated Financial Statements of ElringKlinger AG

FOR THE FINANCIAL YEAR 2020

03

THE FORCE OF CHANGE

In view of the current transformation sweeping through the automotive industry, companies are having to use their technological know-how in an innovative manner for the purpose of strategic realignment – in other words, to harness »the force of change«. Using the example of a transparent drive unit, our »pulse« article explains how ElringKlinger leverages its in-depth manufacturing experience when it comes to developing solutions for electrically powered vehicles.



Group Income Statement

of ElringKlinger AG, January 1 to December 31, 2020

EUR k	Note	2020	2019
Sales revenue	**(1)**	**1,480,438**	**1,727,025**
Cost of sales	(2)	-1,195,526	-1,401,746
Gross profit		**284,912**	**325,279**
Selling expenses	(3)	-107,032	-133,435
General and administrative expenses	(4)	-72,576	-84,823
Research and development costs	(5)	-63,758	-64,071
Other operating income	(6)	9,827	33,506
Other operating expenses	(7)	-23,637	-15,223
Operating result/EBIT		**27,736**	**61,233**
Finance income		29,370	23,104
Finance costs		-63,901	-43,214
Share of result of associates	(8)	-6,761	538
Net finance costs	**(9)**	**-41,292**	**-19,572**
Earnings before taxes		**-13,556**	**41,661**
Income tax expense	(10)	-26,419	-36,649
Net income		**-39,975**	**5,012**
of which: attributable to non-controlling interests	(23)	828	944
of which: attributable to shareholders of ElringKlinger AG	**(23)**	**-40,803**	**4,068**
Basic and diluted earnings per share in EUR	(11)	-0.64	0.06

Group Statement of Comprehensive Income

of ElringKlinger AG, January 1 to December 31, 2020

EUR k	2020	2019
Net income	**-39,975**	**5,012**
Currency translation difference	-29,519	12,880
Share of other comprehensive income of associates	234	-106
Gains and losses that can be reclassified to the income statement in future periods	**-29,285**	**12,774**
Remeasurement of defined benefit plans, net	-7,376	-15,892
Gains and losses that cannot be reclassified to the income statement in future periods	**-7,376**	**-15,892**
Other comprehensive income after taxes	**-36,661**	**-3,118**
Total comprehensive income	**-76,636**	**1,894**
of which: attributable to non-controlling interests	334	750
of which: attributable to shareholders of ElringKlinger AG	**-76,970**	**1,144**

Group Statement of Financial Position

of ElringKlinger AG, as at December 31, 2020

EUR k	Note	Dec. 31, 2020	Dec. 31, 2019
ASSETS			
Intangible assets	(12)	201,071	208,149
Property, plant and equipment	(13)	939,953	1,043,736
Investment property	(14)	0	3,263
Financial assets	(15)	15,088	3,551
Shares in associates	(8)	17,179	23,706
Non-current income tax assets	(16)	335	295
Other non-current assets	(16)	4,320	5,420
Deferred tax assets	(10)	23,763	14,964
Contract performance costs	(17)	9,784	9,428
Non-current contract assets	(18)	717	1,512
Non-current assets		**1,212,210**	**1,314,024**
Inventories	(19)	300,503	356,477
Current contract assets	(18)	9,725	10,891
Trade receivables	(20)	231,249	233,231
Current income tax assets	(20)	4,889	7,739
Other current assets	(20)	71,436	88,683
Cash and cash equivalents	(21)	127,852	135,450
Current assets		**745,654**	**832,471**
Assets held for sale	(22)	5,249	0
		1,963,113	**2,146,495**

EUR k	Note	Dec. 31, 2020	Dec. 31, 2019
LIABILITIES AND EQUITY			
Share capital		63,360	63,360
Capital reserves		118,238	118,238
Revenue reserves		684,325	725,128
Other reserves		-88,653	-52,486
Equity attributable to the shareholders of ElringKlinger AG	**(23)**	**777,270**	**854,240**
Non-controlling interest in equity	(24)	35,617	36,980
Equity		**812,887**	**891,220**
Provisions for pensions	(25)	156,935	148,215
Non-current provisions	(26)	19,793	18,503
Non-current financial liabilities	(27)	391,920	570,416
Non-current contract liabilities	(28)	7,609	11,997
Deferred tax liabilities	(10)	13,692	16,168
Other non-current liabilities	(29)	7,346	8,204
Non-current liabilities		**597,295**	**773,503**
Current provisions	(26)	26,905	17,713
Trade payables	(29)	128,920	157,119
Current financial liabilities	(27)	205,257	160,307
Current contract liabilities	(28)	31,159	19,995
Tax payable	(10)	33,278	17,060
Other current liabilities	(29)	125,493	109,578
Current liabilities		**551,012**	**481,772**
Liabilities relating to assets held for sale	(22)	1,919	0
		1,963,113	**2,146,495**

Group Statement of Changes in Equity

of ElringKlinger AG, January 1 to December 31, 2020

EUR k	Share capital	Capital reserves	Revenue reserves
Balance as of Dec. 31, 2018	**63,360**	**118,238**	**721,060**
Dividend distribution			
Total comprehensive income			**4,068**
Net income			4,068
Other comprehensive income			
Balance as of Dec. 31, 2019	**63,360**	**118,238**	**725,128**
Balance as of Jan. 1, 2020	**63,360**	**118,238**	**725,128**
Dividend distribution			
Total comprehensive income			**-40,803**
Net income			-40,803
Other comprehensive income			
Balance as of Dec. 31, 2020	**63,360**	**118,238**	**684,325**

	Other reserves					
	Remeasurement of defined benefit plans, net	Equity impact of controlling interests	Currency translation differences	Equity attributable to the shareholders of ElringKlinger AG	Non-controlling interests in equity	Group equity
	-37,316	**-422**	**-11,824**	**853,096**	**37,014**	**890,110**
				0	-784	-784
	-15,593		**12,669**	**1,144**	**750**	**1,894**
				4,068	944	5,012
	-15,593		12,669	-2,924	-194	-3,118
	-52,909	**-422**	**845**	**854,240**	**36,980**	**891,220**
	-52,909	**-422**	**845**	**854,240**	**36,980**	**891,220**
				0	-1,697	-1,697
	-7,223		**-28,944**	**-76,970**	**334**	**-76,636**
				-40,803	828	-39,975
	-7,223		-28,944	-36,167	-494	-36,661
	-60,132	**-422**	**-28,099**	**777,270**	**35,617**	**812,887**

Group Statement of Cash Flows

of ElringKlinger AG, January 1 to December 31, 2020

EUR k	Note	2020	2019
Earnings before taxes		-13,556	41,661
Depreciation/amortization (less write-ups) of non-current assets	(12)–(15)	153,719	119,679
Net interest	(9)	15,812	19,486
Change in provisions		8,581	6,121
Gains/losses on disposal of non-current assets		4,596	1,689
Share of result of associates		6,761	-538
Change in inventories, trade receivables and other assets not resulting from financing and investing activities		54,278	83,407
Change in trade payables and other liabilities not resulting from financing and investing activities		3,147	66,670
Income taxes paid	(10)	-18,310	-27,717
Interest paid		-15,388	-16,845
Interest received		831	1,200
Other non-cash expenses and income		17,322	-17,236
Net cash from operating activities		**217,793**	**277,577**
Proceeds from disposals of property, plant and equipment, intangible assets and investment property		17,919	9,559
Proceeds from disposals of financial assets		3,005	5,795
Proceeds from the disposal of subsidiaries		0	21,550
Payments for investments in intangible assets	(12)	-13,708	-19,091
Payments for investments in property, plant and equipment and investment property	(13), (14)	-57,309	-92,224
Payments for investments in financial assets	(15)	-10,520	-10,044
Net cash from investing activities		**-60,613**	**-84,455**
Dividends paid to shareholders and to non-controlling interests		-1,697	-784
Proceeds from the addition of long-term loans	(27)	104,536	167,016
Payments for the repayment of long-term loans	(27)	-287,765	-106,707
Change in current loans		29,153	-163,315
Net cash from financing activities		**-155,773**	**-103,790**
Changes in cash		1,407	89,332
Effects of currency exchange rates on cash		-8,991	804
Cash at beginning of period	(21)	135,450	45,314
Cash at end of period		127,866	135,450
Minus cash attributable to assets held for sale		-14	0
Cash at end of period	**(21)**	**127,852**	**135,450**

Notes to the Consolidated Financial Statements

for the Financial Year 2020

General information

As parent company of the Group, ElringKlinger AG is filed in the commercial register of the local court of Stuttgart (Amtsgericht) under the number HRB 361242. The Company is domiciled in Dettingen/Erms (Germany). The address is ElringKlinger AG, Max-Eyth-Str. 2, 72581 Dettingen/Erms. The Articles of Association are dated August 12, 2020. The registered company name is ElringKlinger AG.

The financial year is the calendar year.

The object of ElringKlinger AG and its subsidiaries (the "ElringKlinger Group") is the development, manufacture and distribution of technical and chemical products, in particular of gaskets, sealing materials, plastic products and modules for the automotive sector and for the manufacturing industry in general. The Company also offers services relating to the technology used in its products. The corporate object also encompasses the administration and commercial exploitation of landed property.

Accounting principles

The consolidated financial statements of ElringKlinger AG as of December 31, 2020, have been prepared in accordance with the International Financial Reporting Standards (IFRSs) approved by the International Accounting Standards Board (IASB) as adopted by the European Union (EU), the interpretations of the International Financial Reporting Interpretations Committee (IFRS IC), the supplementary commercial law regulations pursuant to Section 315e (1) German Commercial Code (Handelsgesetzbuch, "HGB") and the provisions of German commercial and stock corporation law. ElringKlinger AG's Articles of Association contain regulations on profit appropriation. All IASs, IFRSs and IFRICs mandatory for the financial year 2020 have been observed.

On March 25, 2021, the Management Board of ElringKlinger AG submitted the consolidated financial statements for approval by the Supervisory Board, which also convene on March 25, 2021.

The consolidated financial statements have been prepared in euros. Unless otherwise stated, all amounts are in thousands of euro (EUR k).

The income statement was prepared in accordance with the cost of sales method. In order to enhance the clarity of presentation, various items in the consolidated statement of financial position and in the consolidated income statement have been combined.

The following regulations and amendments to existing regulations were applied for the financial year 2020 for the first time:

IFRS pronouncement (published on)	Title	To be applied for financial years beginning on or after
Amendments to various IFRS Standards (March 2018)	Changes in references to the Framework in IFRS standards	January 1, 2020
Amendments to IFRS 3 (October 2018)	Definition of a Business	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 (September 2019)	Interest Rate Benchmark Reform	January 1, 2020
Amendments to IAS 1 and IAS 8 (October 2018)	Definition of Material	January 1, 2020

The first-time application of the regulations listed in the table had no or no material effect on the presentation of financial performance, net assets and cash position of the ElringKlinger Group.

The following regulations or amendments of existing provisions are not yet mandatory and have not been applied by the ElringKlinger Group:

IFRS pronouncement (published on)	Title	To be applied for financial years beginning on or after
Incorporated in European law		
Amendments to IFRS 4 (June 2020)	Extension of the temporary exemption from the application of IFRS 9	January 1, 2021
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (August 2020)	Interest Rate Benchmark Reform – Phase 2	January 1, 2021
Amendments to IFRS 16 (May 2020)	Covid-19-Related Rent Concessions	June 1, 2020
Incorporation in European law still outstanding		**Endorsement expected**
IFRS 17 (May 2017) incl. amendments to IFRS 17 (June 2020)	Insurance Contracts and amendments to IFRS 17	January 1, 2023
Amendments to IFRS 3 (May 2020)	References to the Conceptual Framework	January 1, 2022
Amendment to IAS 1 (July 2020)	Classification of Liabilities as Current or Non-current	January 1, 2023
Amendment to IAS 16 (May 2020)	Proceeds before Intended Use	January 1, 2022
Amendment to IAS 37 (May 2020)	Onerous Contracts – Costs of Fulfilling a Contract	January 1, 2022
Annual Improvements Cycle 2018–2020 (May 2020)	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	January 1, 2022
Amendment to IAS 1 (February 2021)	Disclosure of Accounting Policies	January 1, 2023
Amendment to IAS 8 (February 2021)	Definition of Accounting Estimates	January 1, 2023

ElringKlinger will adopt these standards and amendments as of the mandatory date for first-time application. For standards that are yet to be adopted by the EU, the initial date for first-time application is assumed to be the date approved by the IASB.

ElringKlinger, after performing a review, has come to the conclusion that the first-time application of the reporting requirements mentioned in the table will have no or no material effect on the presentation of financial performance, net assets and cash position of the ElringKlinger Group.

Scope of consolidated financial statements

The consolidated financial statements of ElringKlinger AG as of December 31, 2020, include the annual financial statements of 7 (2019: 6) domestic and 31 (2019: 32) foreign subsidiaries in which ElringKlinger AG holds, either directly or indirectly, more than 50% of the shares or is able to control the entity's financial and business policy for other reasons. Inclusion begins at the time the control relationship comes into being and ends when control is deemed to no longer exist.

The 24.71% share in hofer AG, Nürtingen, Germany, is recorded as an associate in non-current group assets, as ElringKlinger has a significant influence on the business and financial policies. A significant influence in assumed for associates with voting rights ranging from 20% to 50%. As of December 31, 2020, the following companies made use of the exemption provisions provided by Section 264 (3) HGB:

- ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen,
- ElringKlinger Logistic Service GmbH, Rottenburg/Neckar,
- Kochwerk Catering GmbH, Dettingen/Erms,
- Elring Klinger Motortechnik GmbH, Idstein.

An overview of the 38 companies included in the consolidated financial statements of the parent company is provided below.

Schedule of shareholdings and scope of consolidation

as of December 31, 2020

Name of company	Registered office	Share of capital in %
Parent company		
ElringKlinger AG[1]	Dettingen/Erms	
Shares in affiliated companies (fully consolidated in the consolidated financial statements)		
Germany		
Gedächtnisstiftung KARL MÜLLER BELEGSCHAFTSHILFE GmbH	Dettingen/Erms	100.00
Elring Klinger Motortechnik GmbH	Idstein	92.86
ElringKlinger Logistic Service GmbH	Rottenburg/Neckar	96.00
ElringKlinger Kunststofftechnik GmbH	Bietigheim-Bissingen	77.50
hofer powertrain products GmbH	Nürtingen	53.00
KOCHWERK Catering GmbH	Dettingen/Erms	100.00
EK Fuel Cell Technologies GmbH	Dettingen/Erms	100.00
Shares in affiliated companies (fully consolidated in the consolidated financial statements)		
Foreign		
ElringKlinger Abschirmtechnik (Switzerland) AG	Sevelen (Switzerland)	100.00
Elring Klinger (Great Britain) Ltd.	Redcar (UK)	100.00
hofer powertrain products UK Ltd.	Warwick (UK)	53.00
ElringKlinger Italia Srl	Settimo Torinese (Italy)	100.00
ElringKlinger Hungary Kft.	Kecskemét-Kádafalva (Hungary)	100.00
Elring Parts Ltd.	Gateshead (UK)	100.00
Elring Klinger, S.A.U.	Reus (Spain)	100.00
ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.	Bursa (Turkey)	100.00
ElringKlinger Meillor SAS	Nantiat (France)	100.00

Name of company	Registered office	Share of capital in %
ElringKlinger Fuelcell Systems Austria GmbH	Wels (Austria)	100.00
ElringKlinger Silicon Valley, Inc.	Fremont (USA)	100.00
HURO Supermold S.R.L.	Timisoara (Romania)	100.00
ElringKlinger Canada, Inc.	Leamington (Canada)	100.00
ElringKlinger USA, Inc.	Buford (USA)	100.00
ElringKlinger Automotive Manufacturing, Inc.	Southfield (USA)	100.00
ElringKlinger Manufacturing Indiana, Inc.	Fort Wayne (USA)	100.00
Elring Klinger México, S.A. de C.V.	Toluca (Mexico)	100.00
EKASER, S.A. de C.V.	Toluca (Mexico)	100.00
Elring Klinger do Brasil Ltda.	Piracicaba (Brazil)	100.00
ElringKlinger South Africa (Pty) Ltd.	Johannesburg (South Africa)	100.00
ElringKlinger Automotive Components (India) Pvt. Ltd.	Ranjangaon (India)	100.00
Changchun ElringKlinger Ltd.	Changchun (China)	88.00
ElringKlinger Korea Co., Ltd.	Gumi-si (South Korea)	100.00
ElringKlinger China, Ltd.	Suzhou (China)	100.00
ElringKlinger Chongqing Ltd.	Chongqing (China)	100.00
ElringKlinger Engineered Plastics North America, Inc.[2]	Buford (USA)	77.50
ElringKlinger Engineered Plastics (Qingdao) Co., Ltd.[2]	Qingdao (China)	77.50
ElringKlinger Marusan Corporation[3]	Tokyo (Japan)	50.00
Marusan Kogyo Co., Ltd.[5]	Tokyo (Japan)	23.45
PT. ElringKlinger Indonesia[4]	Karawang (Indonesia)	50.00
ElringKlinger (Thailand) Co., Ltd.[4]	Bangkok (Thailand)	50.00
Shares in associates (accounted for using the equity method in the consolidated financial statements)		
Germany		
hofer AG	Nürtingen	24.71

[1] ElringKlinger AG prepares consolidated financial statements for the largest and the smallest group of subsidiaries to be consolidated.
[2] Wholly owned subsidiary of ElringKlinger Kunststofftechnik GmbH.
[3] Consolidated due to contractual possibility of exercising control.
[4] Wholly owned subsidiary of ElringKlinger Marusan Corporation.
[5] 46.9% subsidiary of ElringKlinger Marusan Corporation, consolidated due to majority of voting rights.

Notes on non-controlling interests in subsidiaries

In ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen (Germany), ElringKlinger AG holds, with its two subsidiaries

- ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd., Qingdao, China
- ElringKlinger Engineered Plastics North America, Inc., Buford, USA

(EKT subgroup) controlling interests of 77.5% (unchanged). The non-controlling interests amount to 22.5%.

The share in the earnings of this subgroup attributable to non-controlling interests for the financial year 2020 is EUR 1,973 k (2019: EUR 2,636 k).

As in the previous year, no dividend was distributed to the non-controlling interests of the subgroup in the financial year 2020.

Cash flow of the subgroup

EUR k	2020	2019
Operating activities	16,737	26,087
Investing activities	-4,522	-8,725
Financing activities	-12,498	-16,041
Changes in cash	**-283**	**1,321**
Effects of currency exchange rates on cash	**-77**	**7**

ElringKlinger Kunststofftechnik GmbH is integrated in the monetary transactions of the ElringKlinger Group. Cash and cash equivalents are continuously made available to or called from ElringKlinger AG. They are reported under cash flow from financing activities.

Summarized key financial information of the subgroup

EUR k	2020	2019
Non-current assets	63,852	65,122
Current assets	68,667	57,471
Non-current liabilities	17,107	15,809
Current liabilities	12,727	11,950
Sales revenue	99,270	110,110
Earnings before taxes (EBT)	12,113	14,025
Net income	**8,768**	**10,145**
Total comprehensive income	**7,849**	**8,867**

Further detailed information

EUR k	2020	2019
Cash and cash equivalents	**3,653**	**4,012**
Cash in hand	7	9
Bank deposits	3,646	4,003
Non-current financial liabilities	**433**	**396**
Current financial liabilities	**323**	**274**
Interest income	**429**	**255**
Interest expenses	**107**	**220**
Depreciation and amortization	**6,297**	**6,274**

Newly formed company 2020

EK Fuel Cell Technologies GmbH, based in Dettingen/Erms, Germany, a wholly owned subsidiary of ElringKlinger AG, was founded with effect from October 28, 2020.

Divestitures 2020

No divestitures were made.

Merger 2020

With effect from October 31, 2020, Technik-Park Heliport Kft., based in Kecskemét-Kádafalva, Hungary, a wholly owned subsidiary of ElringKlinger AG, domiciled in Dettingen/Erms, Germany, was merged with ElringKlinger Hungary Kft., based in Kecskemét-Kádafalva, Hungary.

Newly formed company 2019

TPH Asset Management Kft., based in Kecskemét-Kádafalva, Hungary, a wholly owned subsidiary of Technik-Park Heliport Kft., also based in Kecskemét-Kádafalva, Hungary, was founded with effect from August 10, 2019.

Divestitures 2019

The Group primarily focuses its strategic direction on areas of the future: lightweighting, electromobility and electric drive systems. Against this background, in October 2019 the Group reached an agreement with two Hungarian entities on the sale of TPH Asset Management Kft., based in Kecskemét-Kádafalva, Hungary, a wholly owned subsidiary of Technik-Park Heliport Kft., also based in Kecskemét-Kádafalva, Hungary. The acquisition agreement was signed on October 14, 2019. The transaction was closed on December 20, 2019 with immediate effect. The selling price is EUR 21,550 k. 100% of the shares previously held in TPH Asset Management Kft. were transferred in full to the ownership of the contracting partners. The net gain on disposal of EUR 8,616 k is included in other operating income. Ancillary costs of EUR 397 k have been incurred for the disposal of TPH Asset Management Kft. These have been reported in administrative expenses.

Merger 2019

Effective January 1, 2019, Polytetra GmbH, based in Mönchengladbach, Germany, a wholly owned subsidiary of ElringKlinger Kunststofftechnik GmbH, based in Bietigheim-Bissingen, Germany, was merged into ElringKlinger Kunststofftechnik GmbH.

Summary of the principal accounting and measurement methods

The consolidated financial statements were prepared on the basis of historical acquisition and manufacturing costs with the exception of assets and liabilities for which measurement at fair value is mandatory in accordance with IFRS.

The fundamental accounting and measurement methods applied in preparing the consolidated financial statements are described below:

Consolidation methods

Assets and liabilities of the domestic and foreign companies included in the consolidated financial statements are recognized and measured according to the accounting policies that apply uniformly across the ElringKlinger Group.

Upon acquisition of a company, the assets and liabilities of the subsidiaries acquired are measured at their fair value at the time of acquisition. If the purchase price of the interest exceeds the identified assets and liabilities to be measured at fair value, the excess is capitalized as goodwill. If the difference is negative, the identifiable assets and liabilities are remeasured, as are the acquisition costs.

Any remaining negative difference is recorded in income.

Any hidden reserves and liabilities that have been uncovered are rolled forward, depreciated, or released together with the corresponding assets or liabilities. Goodwill is not amortized, but is subject to annual impairment testing.

If additional shares of an already fully consolidated subsidiary are acquired, the difference between the purchase price and carrying amount of non-controlling interests is recognized through other comprehensive income.

The minority interest in subsidiaries held by shareholders outside the Group must be shown as a separate line item under group equity.

Net income for the year for subsidiaries acquired or sold in the course of the year are included in the group income statement from the effective time of acquisition or until the effective time of divestment.

The financial year of all consolidated companies, except the Indian subsidiary (March 31), corresponds to the financial year of the parent company. If the reporting dates differ, interim financial statements are prepared as of the reporting date of the parent company.

All receivables, liabilities, sales revenue, other income and expenses within the scope of consolidation are eliminated. Accumulated gains and losses from intercompany supplies are eliminated from inventories or non-current assets.

Investments in associates

Associates are measured at their share of equity using the equity method and initially recognized along with their acquisition costs, including the transaction costs. The Group's share in the associate's net profit or loss for the period is recognized separately in the consolidated income statement as a share of the financial result. The share in other comprehensive income is recognized directly in group equity. The cumulative changes after the acquisition date increase or decrease the carrying amount of the investment in the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associates. At each reporting date, the Group determines whether there is any objective evidence of impairment of an investment in an associate. If so, the impairment loss is determined as the difference between the recoverable amount of the investment in an associate and its carrying amount, and the loss is recognized through profit or loss as "Share of result of associates."

Currency translation

The reporting currency of the ElringKlinger Group is the euro.

Foreign currency transactions are translated in the annual financial statements of ElringKlinger AG and its consolidated companies at the rates current as of the transaction date. As of the end of the reporting period, assets and liabilities in foreign currency are measured at the closing rate. Differences arising on translation are posted through profit or loss.

Currency translation differences from monetary items that form part of a net investment in a foreign operation are reported in equity under other comprehensive income until the disposal of the net investment.

The financial statements of the foreign companies are translated into euros since this is the functional currency of the parent company. Since the subsidiaries operate their businesses independently in financial, economic and organizational respects, the functional currency is generally identical to the relevant national currency of the company. The expenses and income from financial statements of entities included in the consolidated financial statements which were originally prepared in foreign currencies are translated at the average rate for the year. The average rate for the year is calculated on the basis of daily rates. Assets and liabilities are translated at the closing rate. Currency differences are reported in other comprehensive income and as a separate item in equity.

In the event of a disposal of a consolidated entity, accumulated currency differences are recorded as part of the gain or loss on sale.

The rates used for currency translation are shown in the table below:

		Closing rate		Average rate	
Currency	Abbr.	Dec. 31, 2020	Dec. 31, 2019	2020	2019
US dollar (USA)	USD	1.22710	1.12340	1.14700	1.11945
Pound sterling (UK)	GBP	0.89903	0.85080	0.88935	0.87587
Franc (Switzerland)	CHF	1.08020	1.08540	1.07090	1.11114
Canadian dollar (Canada)	CAD	1.56330	1.45980	1.53802	1.48221
Real (Brazil)	BRL	6.37350	4.51570	5.99878	4.41745
Peso (Mexico)	MXN	24.41600	21.22020	24.73002	21.60815
RMB (China)	CNY	8.02250	7.82050	7.89749	7.72366
WON (South Korea)	KRW	1,336.00000	1,296.28000	1,350.23750	1,303.16917
Rand (South Africa)	ZAR	18.02190	15.77730	18.91385	16.17013
Yen (Japan)	JPY	126.49000	121.94000	121.88417	121.95917
Forint (Hungary)	HUF	363.89000	330.53000	354.05167	325.75167
Turkish lira (Turkey)	TRY	9.11310	6.68430	8.15792	6.35774
Leu (Romania)	RON	4.86830	4.78300	4.84251	4.75011
Indian rupee (India)	INR	89.66050	80.18700	84.94442	78.77538
Indonesian rupiah (Indonesia)	IDR	17,240.76000	15,595.60000	16,743.66083	15,800.49750
Baht (Thailand)	THB	36.72700	33.41500	35.90242	34.59233
Swedish krona (Sweden)	SEK	10.03430	10.44680	10.48153	10.58238

Accounting policies

Goodwill

The goodwill is attributable to cash-generating units (segments) as follows:

EUR k	2020	2019
Original Equipment	153,937	158,338
Engineered Plastics	6,313	6,313
Aftermarket	1,658	1,658
Total	**161,908**	**166,309**

Testing for impairment

Annual impairment testing of goodwill is performed as of the reporting date on December 31. An impairment is recognized in the consolidated income statement through profit or loss if the recoverable amount, which is the higher of fair value less costs of disposal and value in use, is lower than the carrying amount of the cash-generating units.

Impairment of goodwill is not reversed, even if the impairment has ceased to apply. The recoverable amount of the respective cash-generating units for impairment testing as of December 31, 2020, is determined using the respective value in use as present value of forecast future cash inflows. For this purpose, the value in use of the cash-generating unit is determined by discounting future cash flows. A detailed plan of the cash flows for the cash-generating units is established over the forecast period of five years. Subsequent periods are accounted for by a perpetual annuity (terminal value) determined on the basis of the last detailed planning year.

Planning is based on expectations and assumptions of the Management Board regarding future market developments, taking into consideration the business development to date. Significant assumptions relate to the future development of sales revenue and earnings after taxes. Sales revenue and cost planning at the ElringKlinger Group is performed at individual component level.

Both historical data as well as the expected market performance are taken into account for determining the value in use of the cash-generating units. With regard to short-term sales revenue planning, the current order backlog, information on the respective manufacturer and information from independent sources, such as advisory firms or automobile associations, is used. In its sales revenue planning for the medium term, ElringKlinger assumes that it will be able to outpace global growth in automotive production. The figures allocated to the key assumptions are generally in line with external sources of information, e.g., production and expected sales for the respective regional sales markets and customer-specific budgets.

Cost planning takes into account both efficiency gains as well as cost increases.

The cost of capital of the cash-generating units is calculated as the weighted average cost of equity and debt capital. Capital structure, equity and debt capital are based on the Company's peer group and are derived from the available capital market information. The WACC (weighted average cost of capital) applied in each case is determined on the basis of the risk-free rate according to the method of the IDW ["Institut der Wirtschaftsprüfer in Deutschland e. V.,": Institute of Public Auditors in Germany], the market risk premium and the beta factor. Beta represents the individual risk of a share as compared to a market index. It is calculated as the average value for the peer group. The credit spread, which expresses the premium over the risk-free rate, was derived from a rating of the peer group.

As in the previous year, the discount rate was used without applying a growth discount to determine the terminal value, i. e., a growth rate of 0% is applied in the model.

The discount factor applied as of December 31, 2020 was the weighted average cost of capital (WACC) before taxes of 10.41% (2019: 10.40%).

The following significant assumptions have been applied for the projections of individual segments:

Original Equipment

The "Original Equipment" segment was directly affected by the effects of the coronavirus pandemic in the financial year 2020. The segment was especially burdened in the first nine months, a recovery was only visible in the fourth quarter. The negative effects were countered by implementing cost-cutting measures and the efficiency improvement program that had already been introduced before the coronavirus pandemic. However, the planning in terms of earnings was not achieved. The impairment test as of December 31, 2020, in addition to the historical development of the unit, included the development of the peer group as well as the general market outlook. The strategy of the Management Board is still to capture further market share, to increase the sales revenue and to implement margin improvements. Therefore, in the planning period it was assumed that margin improvements can also be realized with rising sales and the margins will again be higher than the margins of the peer group. Furthermore, ElringKlinger is expecting changes in demand arising from the transformation of the automotive industry, which may prove beneficial.

Engineered Plastics

Among other things, due to a very positive market response and successful development in the past financial years, the Engineered Plastics segment in its planning still assumes an increase in sales revenue and a constant positive development in margin.

Aftermarket

The planning of the Aftermarket segment also assumes an increase in sales revenue and the related constant positive development in margin. The planned growth is to be realized through further expansion of business relationships with existing and new customers.

The impairment test performed as of December 31, 2020, did not result in any impairment of goodwill.

The value in use, determined on the basis of the abovementioned assumptions for the Original Equipment segment, exceeds the carrying amount by around EUR 202 million. Changes in cost of capital or profit margin can meanwhile lead to the situation where the carrying amount exceeds the recoverable amount. In the case of an isolated increase in cost of capital by around 0.9 percentage points, the recoverable amount would correspond to the carrying amount. An isolated reduction of the profit margin in the terminal value by around 1.1 percentage point would have the same effect.

Intangible assets

Purchased intangible assets, mainly patents, licenses and software, are recognized at cost.

Internally generated intangible assets, with the exception of goodwill, are capitalized if it is sufficiently probable that use of the asset is associated with a future economic benefit, the costs of the asset can be determined reliably, and the technical and economic feasibility along with the ability and intent to market it are ensured.

The manufacturing costs of internally generated intangible assets are determined on the basis of directly attributable individual costs as well as their proportion of attributable overheads. The revaluation method, which is also permitted, is not applied.

All intangible assets in the Group – with the exception of goodwill – have determinable useful lives and are amortized over these useful lives using the straight-line method. Patents, licenses and software generally have useful lives of 10 years. Capitalized development costs and basic standard software have useful lives of five years. If the actual useful life is materially longer or shorter than 10 or 5 years, this actual useful life is recognized.

Property, plant and equipment

Tangible assets used in business operations for a period longer than one year are measured as property, plant and equipment at cost less straight-line depreciation in accordance with their useful life as well as any necessary impairment. The manufacturing cost of self-constructed property, plant and equipment is determined on the basis of directly attributable individual costs and their proportion of attributable overheads. The revaluation method, which is also permitted, is not applied.

Depreciation is calculated throughout the Group based on the following useful lives:

Class of property, plant and equipment	Years
Buildings	15 to 40
Plant and machinery	12 to 15
Special tooling	3
Operating and office equipment	3 to 15

The useful lives and the depreciation methods and residual carrying amounts are reviewed regularly in order to ensure that the depreciation method and period are consistent with the expected consumption of the economic benefit.

Investment property

Investment property is measured at cost less straight-line depreciation. It is reported separately under non-current assets.

The useful lives of investment property are 40 years in the case of buildings and 20 years in the case of external facilities.

Impairment of property, plant and equipment and intangible assets other than goodwill

Pursuant to IAS 36, property, plant and equipment and intangible assets are subjected to impairment testing at the end of each reporting period or if there is evidence of impairment. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized to the recoverable amount. The recoverable amount is the higher of the following two amounts: the net realizable value less anticipated costs to sell or the value in use. If the recoverable amount for an individual asset cannot be determined, an estimate of the recoverable amount is made at the next higher level cash-generating unit.

Impairment losses are generally allocated in proportion to the carrying amount to the non-current assets of the cash-generating unit.

In the event that the recoverable amount exceeds the carrying amount in subsequent periods, a reversal is recognized up to, at most, amortized cost.

Impairments and reversals of impairments are recorded through profit or loss.

Assets and liabilities held for sale

Assets held for sale or asset and liability groups related to assets held for sale are classified as "held for sale" and recognized separately in the statement of financial position if the corresponding carrying amount is mostly realized by the sale transaction and not by its continued use. In this case, the sale must be concluded and its completion should be highly probable within one year. Assets held for sale and related liabilities are recognized at the lower of the carrying amount and fair value less costs to sell. Depreciation ceases when an asset is classified as held for sale.

Financial instruments

According to IFRS 9, financial assets are measured at either amortized cost or fair value, depending on the business model of the Group with regards to the control and on the cash flow characteristics of financial assets.

Debt instruments are measured **at amortized cost** if they meet two conditions. First, for a financial asset the business model determines collecting cash flows from the financial asset exclusively. Second, the contractual terms determine specified dates that are solely for payments of interest and principal on the principal amount outstanding. By contrast, if the business model does not exclusively provide for the collection of cash flows, but also the sale financial assets, then a financial asset is measured **at fair value through other comprehensive income**. If these conditions are not fulfilled, it is measured **at fair value through profit or loss**. However, there is an option for first-time recognition to designate the financial asset as **at fair value through profit or loss**, provided this designation eliminates or significantly reduces the accounting mismatch. This option was not exercised in the Group.

In general, equity instruments are measured **at fair value through profit or loss**, as they do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. An exception is formed by equity instruments that are held for trading. In this context, there is an option for first-time recognition to designate equity instruments as measured at fair value through other comprehensive income. In this case, the changes in value recognized in other comprehensive income upon derecognition of the equity investment cannot be reclassified to profit or loss.

Financial instruments held within the Group are divided into the following categories:

- Financial assets measured at amortized cost
- Financial assets at fair value through profit or loss
- Financial assets at fair value through other comprehensive income
- Financial liabilities measured at amortized cost
- Financial liabilities measured at fair value through profit or loss

At their acquisition date, financial instruments are categorized on the basis of their intended use.

Financial assets include cash and cash equivalents, trade receivables, financial investments, long-term securities, other loans and receivables as well as derivative financial assets held for trading.

The financial liabilities include trade payables, liabilities to banks, derivative financial liabilities held for trading as well as other financial liabilities.

Financial assets

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Groups' business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or at fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Derivatives are recognized on the trade date, all other regular way purchases and sales of financial assets are recognized in the statement of financial position on the settlement date.

The fair values recognized in the statement of financial position generally correspond to the market prices of the financial assets. If market prices are not available, the fair values are calculated using recognized measurement models and with recourse to current market parameters. The measurement methods include using the most recent transactions between knowledgeable, willing and independent business partners (i.e., at arm's length), comparison with a current fair value of another, substantially identical, financial instrument and the analysis of discounted cash flows.

A financial asset is derecognized if the contractual rights to receive cash flows from this financial asset have expired or have been transferred. In the framework of the transfer, essentially all risks and rewards connected with ownership of the financial asset or the power of control over the asset must be transferred.

Financial assets measured at amortized cost are financial assets resulting from money transfer, the rendering of services or the procurement of merchandise involving third parties are classified as loan and receivables. Current assets classified in this category are measured at acquisition cost, the non-current financial assets are measured at amortized cost in accordance with the effective interest method.

Financial assets acquired for the purpose of sale in the near future (financial instruments held for trading) are recognized **at their fair value through profit or loss**. Equity instruments not held for trading are also measured at fair value through profit or loss, provided the option to recognize at fair value through other comprehensive income is not exercised at the time of first-time recognition. Debt instruments, which do not pass the business model assessment or have the characteristics of cash flows, are also measured at fair value through profit or loss.

Financial assets measured **at fair value through other comprehensive income** if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Upon initial recognition of equity instruments, it may also be elected to irrevocably classify them as at fair value through other comprehensive income if they fulfill the definition of equity according to IAS 32 and are not held for trading.

Cash and cash equivalents include cash in hand, bank deposits and short-term deposits with an original term of less than three months, and are measured at amortized cost.

Applying the expected credit loss model (ECL), the future expected credit loss is material for impairment losses in accordance with IFRS 9. Valuation allowances will be recognized for all financial assets measured at historical cost as well as for debt instruments measured at fair value through other comprehensive income. For the measurement, external measurement sources are consulted for the counterparties. IFRS 9 outlines a three-step model. A risk provision will either be recognized on the basis of the 12-month expected credit loss (step I) or on the basis of the lifetime expected credit loss, if the credit risk has significantly increased since the first-time recognition (step II) or if there is a deterioration in the credit rating (step III). The changes in measurement between the individual steps are determined according to external ratings and based on the model of established rating agencies: investment grade (step I), speculative grade (step II) and risk/default grade (step III).

The simplified procedure is applied to trade receivables. According to this, expected credit losses are calculated over the entire lifetime of receivables.

Impairments on doubtful receivables involve to a considerable extent estimates and judgments of the individual receivables based on the creditworthiness of the customer concerned. Should this not be possible or appropriate under certain circumstances, an average rating (which is based on the average of all the ratings obtained in the reporting period) is applied. ElringKlinger considers this estimate regarding ratings as appropriate.

If there is objective evidence of impairment of loans and receivables (e.g., major financial difficulties on the part of the debtor or negative changes in the market environment of the debtor), these are recognized through profit or loss. The expected credit loss methodology (ECL) in accordance with IFRS 9 applies forward-looking indicators. These not only consider the micro- and macroeconomic aspects, but also the expected development of the individual borrower. For determining risk provisions, ElringKlinger uses the assessment of recognized rating agencies (S&P, Moody's, Fitch, etc.). Impairments of trade receivables are initially recognized in an adjustments account. The impaired receivable is derecognized when it is considered unrecoverable. An irrecoverability is indicated in case of a "D" rating (according to S&P), or insolvency of the debtor has been made public or if there are specific payment defaults.

Financial liabilities

Financial liabilities comprise, in particular, trade payables, bank debt, derivative financial liabilities and other liabilities.

Upon initial recognition, financial liabilities are measured according to fair value less any transaction costs directly attributable to borrowing.

Financial liabilities are derecognized when the liability on which the obligation is based is settled, terminated or has expired.

At ElringKlinger, **financial liabilities measured at amortized cost** include trade payables, liabilities to banks and other financial liabilities. They are measured at amortized cost using the effective interest method. Gains or losses are recognized through profit or loss when the liability is retired or has been redeemed.

Financial liabilities measured at fair value through profit or loss comprise the financial liabilities held for trading purposes, in this case, derivatives, including any embedded derivatives that have been separated from the host contract, if applicable, since these do not qualify for hedge accounting as a hedging instrument. Gains or losses are recognized through profit or loss.

Other current liabilities

ElringKlinger agreed on a call and put option with the non-controlling shareholders for their share as part of the agreements with minority interests of ElringKlinger Marusan Corporation, Tokyo, Japan. The obligation that results from this agreement is recognized at the fair value of the shares under other current liabilities with an effect on income. ElringKlinger Marusan Corporation is therefore fully consolidated in the ElringKlinger Group; non-controlling interests have not been disclosed.

Derivative financial instruments and hedge accounting

Under IFRS 9, all derivative financial instruments such as currency, price and interest swaps as well as forward exchange transactions, must be recognized at market values, independently of the purpose or the intent of the agreement under which they were concluded. Since no hedge accounting is applied in the ElringKlinger Group, the changes in the fair value of the derivative financial instruments are always recognized through profit or loss.

The derivative financial instruments used in the ElringKlinger Group are price hedges. The purpose of derivative financial instruments is to reduce the negative effects of interest and price risks on the financial performance, net assets and cash position of the Group. As of the reporting date, there were forward contracts for electricity and gas, nickel and currency derivatives.

Costs to fulfill a contract

According to IFRS 15, the costs that are not within the scope of another standard can be recognized as an asset, if the costs relate directly to a contract and generate or enhance resources that will be used in satisfying performance obligations of a contract, and they are expected to be recovered as part of a contract.

Costs to fulfill a contract are determined on the basis of directly attributable individual costs and their proportion of attributable overheads.

The capitalized contract costs are amortized on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer. Amortization is recognized in cost of sales.

Furthermore, costs to fulfill a contract are amortized affecting cash if the carrying amount of an asset exceeds the amount of consideration the entity expects to receive in exchange for providing the associated goods and services, less the remaining costs that relate directly to providing those goods and services.

Contract assets and contract liabilities

A contract asset is the right to consideration in exchange for goods or services already transferred to the customer. Contract assets are reported as receivables when they have been billed.

Contract liabilities are recognized for prepayments received from customers before performing the contractually agreed service. On satisfying the performance obligations, these contract liabilities are recognized as revenue.

Inventories

Inventories are recognized at cost or the lower net realizable value. Raw materials supplies and consumables as well as merchandise are measured at the average amortized cost. Cost of conversion of work in progress and finished goods is determined on the basis of directly attributable individual costs and their proportion of production overheads. The proportion of overhead cost attributable to these products is determined on the basis of normal staffing levels. Cost of conversion does not include selling expenses and borrowing cost. Administrative expenses are included in cost of conversion if related to production. Net realizable value represents the estimated sales price less all estimated costs through to completion as well as the cost of marketing, sales and distribution. Markdowns are recorded for detectable impairment due to lack of marketability and quality defects, and to account for declining sales prices.

In the majority of cases, the customers acquire beneficial ownership of tools. The tools are recognized under inventories until the transfer of beneficial ownership.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, checks and bank deposits available on demand. There are cash equivalents. Cash is recognized at amortized cost.

Provisions for pensions

Provisions for pensions are calculated on the basis of the projected unit credit method in accordance with IAS 19 (revised 2011). The calculation considers not only the pensions and vested claims known at the end of the reporting period but also future anticipated increases in pensions and salaries, with appropriate estimates of the relevant factors, as well as biometric assumptions, for which different discount rates are used.

Actuarial gains and losses resulting from the difference between the expected and actual accounting changes in headcount, as well as differences arising from changes to accounting assumptions, are recognized in full in the period in which they occur. They are recognized outside of the income statement under other comprehensive income.

In determining the discount interest rates, the Company is guided by the interest rates observed in capital markets for corporate bonds with first class credit ratings (AA rating or better) which are denominated in the same currency and have similar terms.

Provisions

Provisions are recorded when a past event gives rise to a present legal or constructive obligation to a third party, utilization of the obligation is probable and the anticipated amount of the obligation can be estimated reliably.

Provisions are recognized for risks arising from litigation if an entity of the ElringKlinger Group is the defendant and the weight of evidence supports a negative outcome. The provision is recognized in the amount that the entity will probably lose in the case of a negative outcome. This amount includes any payments to be made by the entity, particularly compensation and severance payments as well as the expected costs of the lawsuit. In litigation in which the entity itself is the plaintiff, provisions are set up for the cost of the lawsuit only.

The measurement of these provisions is at the present best estimate of the expenses necessary to fulfill the obligation.

If appropriate, the amount of the provision corresponds to the present value of the expenditures expected to be necessary to meet the obligations.

Refund claims are capitalized separately, if applicable. If the Group expects at least a partial refund for a provision, the refund is recognized under other assets if the return of the refund is virtually certain.

Leases

IFRS 16 requires a uniform accounting model for lessees, according to which the lessee is required to recognize a right-of-use asset for all leases as well as a lease liability for the outstanding lease payments. The lease liability is recognized at the present value of the future lease payment, discounted with the term-based incremental rate, and reported under financial liabilities. Reference interest rates for a period of up to 15 years from the return on government bonds in the countries concerned is used to determine the incremental borrowing rate. The reference interest rates are extended by a lease risk premium on the basis of Euler Hermes assessment of the ElringKlinger Group.

The rights of use reported under property, plant and equipment are recognized at cost less accumulated amortization and any accumulated impairment losses necessary. The acquisition cost of the right-of-use asset is determined as the present value of all future lease payments plus the lease payments that are made at or before the beginning of the lease as well as the costs to conclude the contracts and the estimated costs for dismantling or restoring the lease asset. All lease incentives received are deducted.

Practical expedients provided by IFRS 16 are applied for low-value assets and short-term leases (with a term of up to 12 months). The lease payments associated with these leases are charged to profit or loss for the reporting period on a straight-line basis over the lease term. In the statement of cash flows, the payments are reported under cash flow from operating activities.

For sale and leaseback transactions with transfer of control to the buyer (lessor), the leaseback assets are recognized at the pro rata carrying amount which is derived from the leased back pro rata right of use. Accordingly, any gain or loss is only recognized to the extent it relates to the rights transferred to the lessor.

Recognition of income and expense

Sales revenue is measured at the fair value of the transaction price received or to be received and represents the amounts that are to be obtained for goods and services in the normal course of business. Sales revenue is shown net of sales deductions, discounts and value added taxes.

Sales revenue is recorded when the performances due have been rendered and the control has passed to the buyer and receipt of the payment can be reliably expected.

A portion of income from development services is to be recognized over time because the customer simultaneously receives and consumes the benefits provided by the ElringKlinger Group. The progress of development services is determined using the input method because there is a direct relationship between the effort of the ElringKlinger Group and the transfer of service to the customer. The Group recognizes sales revenue on the basis of the costs incurred relative to the total expected costs to complete the service.

Sales revenue from licenses which were granted for the first time in the financial year, with which ElringKlinger grants customers the right to use its intellectual property (at the time of issuing the license), is recognized on the date the licenses are granted. Considerations that are dependent on certain milestones being reached are recognized in the income statement when it is highly likely that the milestones will be reached.

Interest income is recognized on an accrual basis using the effective interest method.

Dividend income from financial investments is recorded at the time the payment claim arises.

Other income is recognized on an accrual basis in accordance with the substance of the underlying contract.

Operating expenses are recorded in the consolidated income statement at the time of performance or at the time of origination.

Research and development costs

Research costs are expensed at the time they are incurred. The costs for development activities are capitalized provided all of the following criteria are fulfilled:

- The development costs can be determined reliably.
- The product or the process can be realized technically and commercially.
- Future commercial benefits are likely.
- There is the intent and sufficient resources to complete the development and to use or sell the asset.

Capitalized costs are included under intangible assets. Other development costs are recognized as an expense when incurred. Capitalized development costs are amortized over five years.

Government grants

In accordance with IAS 20, government grants are recognized at fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grant and that the grant will be received.

The Group receives government grants primarily for development projects. These are recorded in income in the period when they are received and reported as other operating income, since the expenses have already been incurred.

Grants that relate to the acquisition or production cost of assets are recognized as deferred income and systematically released to income over the expected useful life of the related asset. The item is disclosed in other current and non-current liabilities.

Borrowing costs

Borrowing costs directly associated with the acquisition, construction, or production of qualifying assets are added to the production costs of these assets until the period in which the assets are largely available for their intended use or for their sale. Interest not capitalized pursuant to IAS 23 is recognized on an accrual basis as an expense using the effective interest method. The actual borrowing costs are capitalized if a financing loan can be definitively assigned to a specific investment. Unless a direct relationship can be established, the Group's average interest rate for borrowed capital for the current period is used. The Group's average interest rate for borrowed capital for the financial year 2020 amounted to 2.5% (2019: 2.02%). In the financial year 2020, borrowing costs of EUR 613 k (2019: EUR 358 k) were capitalized.

Income taxes and deferred taxes

The income tax expense represents the sum of current tax expense and deferred tax expense.

Current tax expense is determined on the basis of the taxable income for the relevant year. Taxable income differs from earnings before taxes as shown in the income statement, since it excludes expenses and income which will be tax deductible in earlier or later years or those which will never become taxable or tax deductible. The liability of the Group for current tax expense is calculated on the basis of applicable tax rates or tax rates established by law as of the end of the reporting period.

Deferred taxes are the expected tax charges and benefits from the differences in the carrying amounts of assets and liabilities in the tax base of the individual companies compared with the valuations in the consolidated financial statements under IFRS. The balance sheet liability method is applied. Such assets and liabilities are not recognized if the temporary difference is the result of (i) the first-time recognition of goodwill or (ii) the first-time recognition of other assets and liabilities resulting from occurrences (not including business combinations) that do not affect taxable income or earnings before taxes according to the income statement. Deferred taxes are recorded on all deductible temporary differences when it is probable that taxable profits will be available against which the deductible temporary differences can be offset. Otherwise, deferred tax assets are recognized on loss carryforwards to the extent that their future use may be anticipated.

The carrying amount of deferred tax assets is reviewed every reporting date.

Deferred taxes are measured at the future tax rates, i. e., those that are expected to apply at the time of realization.

Changes in deferred tax assets are recognized in the income statement as tax income or expense unless they relate to other comprehensive income or items recognized directly in equity; in these cases, changes in deferred taxes are also reported under other comprehensive income or directly in equity.

Contingent liabilities and contingent receivables

Contingent liabilities are not recognized. They are disclosed in the notes, unless the possibility of an outflow of resources with economic benefit is remote. Contingent receivables are not recognized in the financial statements. If the inflow of economic benefits is probable, they are disclosed in the notes.

Use of estimates

Financial statements are prepared in accordance with the pronouncements of the IASB using estimates which influence valuations of items in the statement of financial position, the nature and the scope of contingent liabilities and contingent receivables as of the end of the reporting period and the amounts of income and expenses in the reporting period. At ElringKlinger, the assumptions and estimates relate mainly to the recognition and measurement of provisions, the measurement of financial liabilities from put options, the measurement of goodwill and the realization of future tax relief. Actual results may deviate from these estimates. Changes are recognized through profit or loss at the time better insights are available.

Due to the consequences of the Covid-19 pandemic worldwide, which are still unpredictable at present, the estimates and assumptions used in connection with the assets and liabilities accounted for in particular are subject to higher uncertainty. However, ElringKlinger is currently expecting that this will be a temporary phenomenon.

While updating the estimates and assumptions, the available information regarding the Covid-19 pandemic was taken into account in terms of the expected economic development as well as country-specific measures.

This information was considered when testing the identified cash-generating units and segments for impairment. The value in use determined includes estimates specifically with regard to the forecast of future cash flows. They in turn rely on projections regarding the future demand volume and selling prices as well as on cost forecasts. This resulted in impairment losses on intangible assets and property, plant and equipment in the reporting year.

Warranty obligations may arise by force of law, by contract or for policy reasons. Provisions are recognized for the expected claims arising from warranty obligations. A claim may be expected especially if the warranty period has not yet expired, if warranty expenses have been incurred in the past, or if there is concrete evidence of warranty incidents being imminent. The warranty risk is determined on the basis of the circumstances from individual estimates or from past experience, and appropriate provisions are recognized.

Provisions for potential additional payments and penalties from US import duties stem from the assessment of lawyers and the Management Board on the basis of scenario analyses.

The estimates regarding the realization of future tax relief are based on calculations by external consultants.

The use of estimates for other items in the group statement of financial position and the group income statement are described in the accounting principles for the respective items. This pertains in particular to the matters: Impairments of goodwill and the measurement of pension provisions.

Risks and uncertainties

As a rule, the global automotive markets develop similarly to the economy in general. If economic development cools down considerably, this represents a risk for demand and ultimately for vehicle production. This could possibly result in lower demand for the product portfolio of the ElringKlinger Group.

According to ElringKlinger's assessment as of the reporting date, risks regarding economic development exist in the general slowdown of the global market growth. The coronavirus pandemic resulted in a considerable decline in demand in 2020 worldwide, and remains a significant influencing factor in 2021. Besides, there is potential for global trade conflicts, for example between the economic heavyweights, the US and China. Above all, the sustained high commodity prices and interruptions in production due to a shortage of semi-conductor chips play an important role in the automotive industry. Furthermore, stringent CO_2 emission regulations came into effect in the EU at the beginning of the year; non-compliance results in high penalties for the manufacturers.

With its customer structure, ElringKlinger is not dependent on specific markets or individual manufacturers. Given its global presence with production and sales locations in 21 countries, the Group is to a large extent well positioned to handle potential stagnation or waning demand in individual vehicle markets.

This means that an economic downturn in one region can at least be partially offset. Thanks to its cost structures, ElringKlinger, in the event of greater economic turmoil, would be in the position to react immediately to the market conditions. The instruments available include flextime accounts and flexible shift models as well as the option to apply for government-sponsored schemes for shorter working hours. In addition, it is possible to react to changing market situations by adjusting the headcount to the demand situation and by merging the production quantities of individual plants. The central purchasing department works in close cooperation with suppliers for the purpose of assessing and adjusting procurement volumes continuously.

ElringKlinger makes adequate provision for economic risks during the planning stage. A policy of using a cautious macro-economic scenario for budgeting purposes is applied.

Individual disclosures on the Group Income Statement

1 — Sales revenue

EUR k	2020	2019
Lightweighting/Elastomer Technology	422,591	494,299
Metal Sealing Systems & Drivetrain Components*	410,678	491,186
Shielding Technology	291,074	399,161
E-Mobility	54,739	27,133
Exhaust Gas Purification	6,931	10,388
Others	52	1,281
Segment Original Equipment	**1,186,065**	**1,423,448**
Segment Original Equipment	1,186,065	1,423,448
Segment Aftermarket	182,473	172,610
Segment Engineered Plastics	107,554	117,451
Sales of goods and licensing	**1,476,092**	**1,713,509**
Sale of goods	1,451,592	1,713,509
Proceeds from licensing	24,500	0
Proceeds from the rendering of services	4,328	9,400
Revenue from contracts with customers	**1,480,420**	**1,722,909**
Revenue from contracts with customers	1,480,420	1,722,909
Income from rental and leasehold	18	4,116
Total	**1,480,438**	**1,727,025**

* Founded as of October 1, 2020; includes the former divisions Cylinder-head Gaskets and Specialty Gasketsz

Breakdown by geographical markets:

EUR k	2020	2019
Revenue from contracts with customers	355,598	394,978
Income from rental and leasehold	18	18
Total Germany	**355,616**	**394,996**
Revenue from contracts with customers	1,124,822	1,327,931
Income from rental and leasehold	0	4,098
Total other countries	**1,124,822**	**1,332,029**
Total	**1,480,438**	**1,727,025**

The location of the customer is used to determine allocation of sales revenue. The division of group sales revenue by segment and region is provided under Note (35) Segment reporting.

Contract balances

EUR k	Dec. 31, 2020	Dec. 31, 2019
Trade receivables	231,249	233,231
Contract assets	10,442	12,403
Contract liabilities	**38,768**	31,992

Sales revenue of EUR 19,995 k (2019: EUR 10,469 k) was recorded in the reporting period, which, at the beginning of the financial year, was included in contract liabilities.

A contract asset is the right to consideration in exchange for goods or services already transferred to the customer. This mainly takes place through sales revenue that is to be recognized over time. Contract assets are reported as receivables when billed. This is generally performed on a short-term basis within a month.

Contract liabilities include long-term prepayments for customer-specific provisions of additional production capacity and short-term prepayments for customer-specific tools. The increase in contract liabilities in the financial year 2020 was mainly due to prepayments received on account of orders of customer-specific systems and tools of EUR 10,569 k.

Reconciliation of contract balances

The changes in contract assets and contract liabilities in the reporting period result from the following matters:

EUR k	Contract assets	Contract liabilities
As of Jan. 1, 2019	**7,616**	**13,083**
Revenue that was included in the contract liability balance at the beginning of the reporting period		10,469
Reclassification of contract assets reported at the beginning of the reporting period to trade receivables	6,297	
Additions from payments received less amounts reported as sales revenue in the reporting period		29,378
Additions from performance completed not yet billed in the reporting period	11,084	
As of Dec. 31, 2019	**12,403**	**31,992**
Revenue that was included in the contract liability balance at the beginning of the reporting period		19,995
Reclassification of contract assets reported at the beginning of the reporting period to trade receivables	10,891	
Additions from payments received less amounts reported as sales revenue in the reporting period		26,771
Additions from performance completed not yet billed in the reporting period	8,930	
As of Dec. 31, 2020	**10,442**	**38,768**

Performance obligations

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as of December 31, 2020 are as follows:

EUR k	Dec. 31, 2020	Dec. 31, 2019
Within one year	5,079	6,489
More than one year	1,080	3,780

Limited variable consideration is not taken into account in the disclosed amounts. Furthermore, no information is included for performance obligations from contracts with an expected original term of a maximum of one year. Similarly, no disclosures on performance obligations are included that are satisfied over a certain period and for which the entitlement of a consideration is equivalent to the amount that corresponds directly to the value of the performance already completed and for which revenue can be realized to that amount that can be billed.

2 — Cost of sales

The cost of sales shows the costs incurred to obtain the sales revenue.

Cost of sales includes:

EUR k	2020	2019
Cost of materials	622,679	800,720
Personnel expenses	315,062	369,284
Depreciation and amortization	138,398	104,206
Reversal of costs to fulfill a contract	1,809	1,053
Other expenses	117,578	126,483
Total	**1,195,526**	**1,401,746**

3 — Selling expenses

Compared to 2019, selling expenses decreased by EUR 26,403 k to EUR 107,032 k. Selling expenses mainly include personnel expenses, material and marketing costs, as well as depreciation and amortization related to sales activities.

4 — General and administrative expenses

General and administrative expenses primarily include personnel expenses and material costs as well as the depreciation and amortization related to the administrative area. Compared to 2019, general and administrative expenses decreased by EUR 12,247 k to EUR 72,576 k.

5 — Research and development costs

Research and development costs include the personnel expenses, amortization and depreciation and the cost of experimental materials and tools attributable to these activities, unless these are development costs that are required to be capitalized under the conditions set forth in IAS 38.57. Compared to 2019, research and development costs decreased by EUR 313 k to EUR 63,758 k. Development costs of EUR 12,351 k (2019: EUR 16,695 k) were capitalized in the financial year 2020.

6 — Other operating income

EUR k	2020	2019
Government grants	3,631	5,581
Reimbursements from third parties	2,501	3,549
Income from the disposal of non-current assets	619	423
Insurance reimbursements/claims reimbursements	291	7,832
Other taxes (excl. income tax)	165	5,241
Reversal of impairments on receivables	66	147
Income from first-time consolidation	0	8,616
Other	2,554	2,117
Total	**9,827**	**33,506**

7 — Other operating expenses

EUR k	2020	2019
Impairment of receivables	6,005	1,222
Losses from the disposal of non-current assets	5,222	2,113
Other taxes (excl. income tax)	4,620	7,122
Expenditures for claims	3,170	1,000
Other fees	1,900	1,417
Defaults on receivables	586	515
Selling costs for machinery	444	243
Recognition of provisions/deferred liabilities	0	365
Other	1,690	1,226
Total	**23,637**	**15,223**

8 — Associates

ElringKlinger holds a share of 24.71% in hofer AG, Nürtingen. The hofer Group is a competent systems developer for drive train systems in the automotive sector. ElringKlinger continues to use the equity method to account for its share in hofer AG in the consolidated financial statements. The following table provides summarized information of the Group's investment in hofer AG.

EUR k	2020	2019
Non-current assets	57,255	56,724
Current assets	88,098	90,421
Non-current liabilities	5,864	19,371
Current liabilities	84,626	46,496
Net assets	**54,863**	**81,278**
Group share 24.71%	13,557	20,084
Goodwill	13,432	13,432
Accumulated impairment previous years	-9,810	-4,287
Impairment current year	0	-5,523
Carrying amount of the Group's share	**17,179**	**23,706**
Sales revenue	54,216	109,759
Comprehensive income for the financial year	**-26,414**	**-4,965**
thereof other comprehensive income	946	-455
Group share in profit/loss	**-6,527**	**-1,961**
Dividends received	**0**	**0**

As of December 31, 2020, the associate had contingent liabilities of EUR 3,289 k (2019: EUR 497 k) and liabilities to banks of EUR 1,987 k (2019: EUR 2,486 k).

In the previous year, the impairment test of the carrying amount of the investment performed as of December 31, 2019 resulted in a need to recognize impairment of EUR 5,523 k. Here the recoverable amount of the net investment was compared to its carrying amount. The value in use was applied as the recoverable amount, which was determined using the following assumptions:

A detailed plan of the cash flows on the basis of the revised assessment by management was established over the forecast period of five years. Necessary investments contained in the business plan were taken into account. Subsequent periods are accounted for by a perpetual annuity (terminal value) determined on the basis of the last detailed planning year.

The discount factor applied was the weighted average cost of capital (WACC) before taxes of 9.75%.

9 — Net finance costs

EUR k	2020	2019
Finance income		
Income from currency differences	28,532	20,852
Interest income	837	2,245
Other	1	7
Finance income, total	**29,370**	**23,104**
Finance costs		
Expenses from currency difference	-40,546	-21,097
Interest expenses	-16,649	-21,730
Other	-6,706	-387
Finance costs, total	**-63,901**	**-43,214**
Expenses from associates	-6,761	-7,484
Income from associates	0	8,022
Share of result of associates	**-6,761**	**538**
Net finance costs	**-41,292**	**-19,572**

Of the interest expenses, EUR 1,444 k (2019: EUR 2,513 k) relate to interest portions of pension plans and the remainder to bank interest and interest expense from the reversal of discounts on non-current provisions. Interest expenses of EUR 1,176 k (2019: EUR 1,299 k) resulted from the roll forward of lease liabilities in accordance with the effective interest method. Borrowing costs for qualifying assets in the amount of EUR 613 k were capitalized in the reporting year (2019: EUR 358 k); this represents a corresponding improvement in the result.

The expenses from associates contain the roll forward of the carrying amount affecting income of EUR -6,761 k (2019: EUR -1,961 k) as well as the impairment on the recoverable amount, determined as value in use, of EUR 0 k (2019: EUR 5,523 k).

The income from associates in the previous year resulted from the deemed disposal of shares, as ElringKlinger AG did not participate in the capital increase of hofer AG.

Other financial expenses contain expenses of EUR 6,661 k (2019: EUR 222 k) due to the subsequent measurement of a liability contained in other current liabilities resulting from the written put option on non-controlling interests of ElringKlinger Marusan Corporation, Tokyo, Japan.

10 — Income taxes

Income taxes break down as follows:

EUR k	2020	2019
Current tax expense	34,052	32,549
Deferred taxes	-7,633	4,100
Tax expense reported	**26,419**	**36,649**

The income taxes consist of corporation and municipal trade taxes including the solidarity surcharge of the domestic Group companies as well as comparable income taxes of the foreign Group companies.

The income tax rate calculated for the German companies is 28.8% (2019: 28.7%). Foreign taxation is calculated at the rates applicable in the countries concerned and lies between 9.0% and 34.7% (2019: between 9.0% and 34.7%). The average foreign tax rate is 23.8% (2019: 23.3%).

Deferred taxes are calculated by applying the applicable tax rates or tax ratios established by law in the different countries at the time of realization based on the accounting policies above.

The following table shows a reconciliation between the income tax expense that might theoretically be expected to arise for the Group under application of the current domestic rate of 24.7% (2019: 24.2%) and the income tax expense actually reported.

EUR k	**2020**	**2019**
Earnings before taxes	-13,556	41,661
Expected tax rate	**24.65%**	**24.20%**
Expected tax expenses	**-3,342**	**10,082**
Change in the expected tax rate due to:		
– Permanent differences	6,787	1,399
– Difference in basis of assessment of local taxes	-846	449
– Use of non-capitalized or forfeiture of capitalized tax loss carryforwards	325	-389
– Addition to non-current tax loss carryforwards (relating to the period)	15,664	15,750
– Taxes relating to other periods	1,499	3,851
– Deviations due to changes in tax rate	4,565	4,199
– Deviations on account of withholding taxes	1,832	1,880
– Other effects	-65	-572
Tax expense reported	**26,419**	**36,649**
Actual tax rate	**-194.9%**	**88.0%**

Retained earnings of EUR 56,003 k (2019: EUR 28,447 k) at domestic and foreign subsidiaries will be distributed to ElringKlinger AG in the coming years. The tax expense on distributions in Germany amounts to EUR 3,080 k (2019: EUR 1,238 k) and was recorded as a deferred tax liability. Further retained earnings of domestic and foreign subsidiaries of EUR 104,846 k (2019: EUR 189,217 k) are intended to be permanently reinvested in those operations on the basis of current planning.

Deferred tax assets on tax loss carryforwards have been recognized in the amount of EUR 5,668 k (2019: EUR 8,063 k). No deferred tax assets were recognized in respect of tax loss carryforwards amounting to EUR 245,471 k (2019: EUR 198,706 k), since it was not expected that the deferred tax assets would be utilized in the foreseeable future.

Unused income tax loss carryforwards primarily relate to foreign subsidiaries. The loss carryforwards not recognized for tax purposes will be forfeited as follows:

Loss carryforwards are forfeited within EUR k	Dec. 31, 2020	Dec. 31, 2019
One year	0	0
Two years	0	0
Three years	12,722	0
Four years	8,762	8,789
Five years	11,294	9,916
More than five years	88,146	79,583
Non-forfeitable	124,547	100,418
Total	**245,471**	**198,706**

Tax deferrals relate to the following line items:

	Deferred tax assets		Deferred tax liabilities	
Line items EUR k	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Intangible assets	780	873	11,338	11,416
Property, plant and equipment	4,363	2,878	50,088	45,033
Investment property	0	82	0	1,933
Financial assets	3	5	21	0
Other non-current assets	19	21	2,247	2,495
Inventories	8,661	7,737	0	0
Current contract assets	0	0	2,212	2,533
Trade receivables	2,454	913	61	144
Other current assets	693	1,551	494	200
Cash and cash equivalents	1	0	0	0
Provisions for pensions	27,936	26,681	0	0
Non-current provisions	3,584	2,967	0	5
Non-current financial liabilities	14,569	7,431	0	0
Other non-current liabilities	1,328	604	2	0
Current provisions	1,124	1,497	67	0
Trade payables	15	1,101	34	133
Current financial liabilities	6,484	3,601	0	3,887
Current contract liabilities	0	153	0	0
Other current liabilities	5,090	2,836	3,335	2,052
Deferred taxes associated with investments in subsidiaries	0	0	3,080	1,238
Tax loss carryforwards	5,668	8,036	0	0
Tax credits	285	871	0	0
Reclassification to assets held for sale	-7			
Total	**83,050**	**69,865**	**72,979**	**71,069**
Offsetting deferred tax assets against deferred tax liabilities	-59,287	-54,901	-59,287	-54,901
Recognized in the statement of financial position	**23,763**	**14,964**	**13,692**	**16,168**

Deferred taxes totaling EUR 3,131 k (2019: EUR 6,038 k) were recognized in other comprehensive income. Of this amount EUR 3,084 k (2019: EUR 6,019 k) relates to pension provisions and EUR 47 k (2019: EUR 19 k) to exchange rate differences.

11 — Basic and diluted earnings per share

To obtain the basic earnings per share, the period profit attributable to the shareholders of the parent company is divided by the number of individual shares.

Diluted earnings per share correspond to basic earnings per share and are calculated as follows:

	2020	2019
Profit/loss attributable to the shareholders of ElringKlinger AG (EUR k)	-40,803	4,068
Average number of shares	63,359,990	63,359,990
Earnings per share in EUR	**-0.64**	**0.06**

Disclosures on the Group Statement of Financial Position

12 — Intangible assets

EUR k	Development costs (internally developed)	Goodwill (purchased)	Patents, licenses, software and similar rights (purchased)	Intangible assets under construction (purchased)	Total
Acquisition/production cost as of Jan. 1, 2020	**59,961**	**179,907**	**53,741**	**338**	**293,947**
Currency changes	-510	-3,162	-314	0	-3,986
Additions	12,351	0	886	471	13,708
Reclassifications	0	0	285	-272	13
Disposals	15,831	0	1,144	0	16,975
Reclassification to assets held for sale	0	1,500	86	0	1,586
As of Dec. 31, 2020	**55,971**	**175,245**	**53,368**	**537**	**285,121**
Write-downs as of Jan. 1, 2020	**30,367**	**13,598**	**41,833**	**0**	**85,798**
Currency changes	-488	-261	-250	0	-999
Additions	12,766	0	2,789	0	15,555
Impairment	0	0	47	0	47
Write-ups	0	0	0	0	0
Disposals	15,826	0	502	0	16,328
Reclassification to assets held for sale	0	0	23	0	23
As of Dec. 31, 2020	**26,819**	**13,337**	**43,894**	**0**	**84,050**
Net carrying amount as of Dec. 31, 2020	**29,152**	**161,908**	**9,474**	**537**	**201,071**

EUR k	Development costs (internally developed)	Goodwill (purchased)	Patents, licenses, software and similar rights (purchased)	Intangible assets under construction (purchased)	Total
Acquisition/production cost as of Jan. 1, 2019	**48,995**	**171,327**	**50,930**	**1,386**	**272,638**
Currency changes	695	8,580	49	0	9,324
Additions	16,695	0	2,082	314	19,091
Reclassifications	0	0	1,590	-1,362	228
Disposals	6,424	0	910	0	7,334
As of Dec. 31, 2019	**59,961**	**179,907**	**53,741**	**338**	**293,947**
Write-downs as of Jan. 1, 2019	**30,431**	**13,523**	**38,377**	**0**	**82,331**
Currency changes	641	75	30	0	746
Additions	5,719	0	4,385	0	10,104
Reclassifications	0	0	0	0	0
Write-ups	0	0	55	0	55
Disposals	6,424	0	904	0	7,328
As of Dec. 31, 2019	**30,367**	**13,598**	**41,833**	**0**	**85,798**
Net carrying amount as of Dec. 31, 2019	**29,594**	**166,309**	**11,908**	**338**	**208,149**

Purchase commitments to acquire intangible assets amounted to EUR 418 k as of December 31, 2020 (December 31, 2019: EUR 1,502 k). All amortization of intangible assets is contained under the following line items in the income statement:

EUR k	2020	2019
Cost of sales	13,079	6,110
Selling expenses	244	1,650
General and administrative expenses	1,587	1,527
Research and development costs	645	817
Total	**15,555**	**10,104**

13 — Property, plant and equipment

EUR k	Land and buildings	Plant and machinery	Other equipment, furniture and fixtures	Property, plant and equipment under construction	Total
Acquisition/production cost as of Jan. 1, 2020	**562,318**	**1,241,553**	**233,520**	**61,056**	**2,098,447**
Currency changes	-13,516	-39,711	-4,390	-2,824	-60,441
Additions	35,077	24,909	9,415	23,257	92,658
Reclassifications	14,614	32,787	753	-39,392	8,762
Disposals	21,946	28,133	9,095	0	59,174
Reclassification to assets held for sale	2,829	631	244	82	3,786
As of Dec. 31, 2020	**573,718**	**1,230,774**	**229,959**	**42,015**	**2,076,466**
Write-downs as of Jan. 1, 2020	**135,503**	**770,361**	**148,847**	**0**	**1,054,711**
Currency changes	-2,343	-18,964	-2,231	0	-23,538
Additions	22,251	72,521	19,175	0	113,947
Impairment	3,170	19,359	1,642	0	24,171
Reclassifications	5,511	0	0	0	5,511
Disposals	5,945	24,221	7,782	0	37,948
Reclassification to assets held for sale	265	42	34	0	341
As of Dec. 31, 2020	**157,882**	**819,014**	**159,617**	**0**	**1,136,513**
Net carrying amount as of Dec. 31, 2020	**415,836**	**411,760**	**70,342**	**42,015**	**939,953**
Acquisition/production cost as of Jan. 1, 2019	**496,537**	**1,137,450**	**206,816**	**110,727**	**1,951,530**
Adjustment carryforward new standards	39,062	405	5,940	0	45,407
Acquisition/production cost as of Jan. 1, 2019	**535,599**	**1,137,855**	**212,756**	**110,727**	**1,996,937**
Currency changes	4,852	12,968	842	1,785	20,447
Additions	18,400	42,498	21,300	28,334	110,532
Reclassifications	13,510	62,083	3,959	-79,780	-228
Disposals	10,043	13,851	5,337	10	29,241
As of Dec. 31, 2019	**562,318**	**1,241,553**	**233,520**	**61,056**	**2,098,447**
Write-downs as of Jan. 1, 2019	**113,369**	**705,902**	**134,416**	**0**	**953,687**
Adjustment carryforward new standards	0	0	0	0	0
Write-downs as of Jan. 1, 2019	**113,369**	**705,902**	**134,416**	**0**	**953,687**
Currency changes	1,370	7,315	494	0	9,179
Additions	21,260	69,297	18,803	0	109,360
Reclassifications	0	30	-30	0	0
Disposals	496	12,183	4,836	0	17,515
As of Dec. 31, 2019	**135,503**	**770,361**	**148,847**	**0**	**1,054,711**
Net carrying amount as of Dec. 31, 2019	**426,815**	**471,192**	**84,673**	**61,056**	**1,043,736**

For property, plant and equipment (including the right-of-use assets reported under property, plant and equipment), the changes in the expected demand in connection with the transformation process in the automotive industry, as well as the course of the global coronavirus pandemic resulted in lower cash flow forecasts for individual cash-generating units and thus to impairment totaling EUR 24,171 k. They mainly concern the following cash-generating units:

EUR k	South Africa	UK	Italy	Korea	Hungary	Switzer-land	Germany
Land and buildings	130	0	2,917	0	0	0	0
Plant and machinery	667	3,050	580	2,255	0	6,307	3,351
Other equipment, furniture and fixtures	57	1,002	122	243	0	2	194
Value in use	570	-9,121	1,944	-4,671	15,182	77,605	-42,714
WACC	10.3	8.0	9.6	7.9	9.6	7.4	7.4
Impairment not reported pursuant to IAS 36.105	0	13,190	3,910	7,134	12,709	0	10,061

Of the impairment recorded on land and buildings and other equipment, furniture and fixtures, an amount of EUR 3,163 k and EUR 177 k, respectively, is attributable to the right-of-use assets.

The expected cash flows of the respective cash-generating unit are derived from the business plan and comprise the detailed planning period until 2025. The terminal value was calculated using the growth rate of 1%.

However, due to the threshold pursuant to IAS 36,105, a total of EUR 47,004 k of the impairment losses that have been determined was not reported. The incomplete reporting of impairment losses due to IAS 36,105 stems from the higher fair values less costs of disposal allocable to the individual assets, whose calculation is subject to judgment and is mainly based on the estimates of possible stand-alone selling prices.

Impairment losses on property, plant and equipment are to a large extent reported under cost of sales and to a lesser extent under other functional areas.

Purchase commitments to acquire property, plant and equipment from third parties amounted to EUR 14,575 k as of December 31, 2020 (December 31, 2019: EUR 34,212 k).

As regards property, the ElringKlinger Group primarily rents production halls, office space as well as parking spaces. The rented technical equipment primarily comprises machines, which are deployed in production. The operating and office equipment comprises leased vehicles and forklifts. Lease contracts can include extension and termination options. All lease contracts are negotiated individually and contain a number of different conditions.

Right-of-use assets disclosed under property, plant and equipment break down as follows:

EUR k	Land and buildings	Plant and machinery	Other equipment, furniture and fixtures	Total
Acquisition/production cost as of Jan. 1, 2020	**43,110**	**453**	**13,958**	**57,521**
Currency changes	-2,649	-7	-355	-3,011
Additions	29,667	1,484	3,978	35,129
Disposals	2,856	332	1,778	4,966
Reclassification to assets held for sale	1,569	0	83	1,652
As of Dec. 31, 2020	**65,703**	**1,598**	**15,720**	**83,021**
Write-downs as of Jan. 1, 2020	**7,782**	**222**	**3,662**	**11,666**
Currency changes	-673	-5	-193	-871
Additions	9,170	328	4,768	14,266
Impairment	3,046	0	117	3,163
Disposals	1,933	293	1,520	3,746
Reclassification to assets held for sale	232	0	13	245
As of Dec. 31, 2020	**17,160**	**252**	**6,821**	**24,233**
Net carrying amount as of Dec. 31, 2020	**48,543**	**1,346**	**8,901**	**58,790**

EUR k	Land and buildings	Plant and machinery	Other equipment, furniture and fixtures	Total
Acquisition/production cost as of Jan. 1, 2019	**39,062**	**405**	**5,940**	**45,407**
Currency changes	1,170	4	67	1,241
Additions	9,534	281	8,857	18,672
Disposals	6,656	237	906	7,799
As of Dec. 31, 2019	**43,110**	**453**	**13,958**	**57,521**
Write-downs as of Jan. 1, 2019	**–**	**–**	**–**	**–**
Currency changes	44	0	18	62
Additions	8,093	426	4,346	12,865
Disposals	355	204	702	1,261
As of Dec. 31, 2019	**7,782**	**222**	**3,662**	**11,666**
Net carrying amount as of Dec. 31, 2019	**35,328**	**231**	**10,296**	**45,855**

As part of a sale and leaseback transaction, one property was sold and leased back in the reporting year. The transaction resulted in a gain of EUR 298 k. The lessor was granted a lessee loan that accrues over the lease term and amounts to EUR 1,061 k as of the reporting date. As the repayment is directly dependent on the residual value of the property, the lessee loan is to be considered as the residual value guarantee in accordance with IFRS 16 and is included in the amount of the expected claim in the lease liability. At present, ElringKlinger does not expect that it will be claimed. The repayment claim is recognized at fair value through profit or loss and is reported as other financial investment under non-current financial assets.

For further comments on leases, please refer to Note (30), (31) and (32) in the notes to the financial statements.

14 — Investment property

EUR k	Investment property	Investment property under construction	Total
Acquisition/production cost as of Jan. 1, 2020	**8,763**	**11**	**8,774**
Currency changes	0	0	0
Additions	0	0	0
Reclassifications	-8,763	-11	-8,774
Disposals	0	0	0
Reclassification to assets held for sale	0	0	0
As of Dec. 31, 2020	**0**	**0**	**0**
Write-downs as of Jan. 1, 2020	**5,511**	**0**	**5,511**
Currency changes	0	0	0
Additions	0	0	0
Disposals	0	0	0
Reclassifications	-5,511	0	-5,511
Reclassification to assets held for sale	0	0	0
As of Dec. 31, 2020	**0**	**0**	**0**
Net carrying amount as of Dec. 31, 2020	**0**	**0**	**0**
Acquisition/production cost as of Jan. 1, 2019	**28,185**	**106**	**28,291**
Currency changes	-564	-3	-567
Additions	106	261	367
Reclassifications	263	-263	0
Disposals	0	90	90
Reclassification to assets held for sale	19,227	0	19,227
As of Dec. 31, 2019	**8,763**	**11**	**8,774**
Write-downs as of Jan. 1, 2019	**11,724**	**0**	**11,724**
Currency changes	-187	0	-187
Additions	267	0	267
Disposals	0	0	0
Reclassification to assets held for sale	6,293	0	6,293
As of Dec. 31, 2019	**5,511**	**0**	**5,511**
Net carrying amount as of Dec. 31, 2019	**3,252**	**11**	**3,263**

The Idstein industrial park, which was reported under investment property in the previous year, was reclassified to (13) Property, plant and equipment in the financial year. The reclassification was made at the carrying amount of EUR 3,263 k.

15 — Financial assets

EUR k	Non-current securities	Other financial assets	Total
Acquisition cost as of Jan. 1, 2020	**1,619**	**2,016**	**3,635**
Currency changes	-5	0	-5
Additions	0	11,561	11,561
Changes in value	-21	0	-21
Disposals	0	0	0
As of Dec. 31, 2020	**1,593**	**13,577**	**15,170**
Depreciation and amortization as of Jan. 1, 2020	**84**	**0**	**84**
Currency changes	-2	0	-2
Additions	1	0	1
Changes in value	0	0	0
Write-ups	1	0	1
Disposals	0	0	0
As of Dec. 31, 2020	**82**	**0**	**82**
Net carrying amount as of Dec. 31, 2020	**1,511**	**13,577**	**15,088**
Fair value Dec. 31, 2020	1,524	13,577	
Acquisition cost as of Jan. 1, 2019	**729**	**2,016**	**2,745**
Currency changes	-1	0	-1
Additions	1,020	0	1,020
Changes in value	-18	0	-18
Disposals	111	0	111
As of Dec. 31, 2019	**1,619**	**2,016**	**3,635**
Depreciation and amortization as of Jan. 1, 2019	**82**	**0**	**82**
Currency changes	-1	0	-1
Additions	10	0	10
Changes in value	0	0	0
Write-ups	7	0	7
Disposals	0	0	0
As of Dec. 31, 2019	**84**	**0**	**84**
Net carrying amount as of Dec. 31, 2019	**1,535**	**2,016**	**3,551**
Fair value Dec. 31, 2019	1,540	2,016	

Of the non-current securities, EUR 364 k (2019: EUR 309 k) is pledged in full to secure pension claims.

Other financial assets contain an investment in a minority interest of EUR 4,200 k in Aerostack GmbH, based in Dettingen/Erms, Germany. This is an expression of long-term partnership between ElringKlinger AG, based in Dettingen/Erms, Germany, and Airbus Operations GmbH, based in Hamburg, Germany, in the field of fuel cell technology with the aim of jointly developing and validating fuel cell stacks suitable for aviation. The investment constitutes an equity instrument in which ElringKlinger has invested in for strategic reasons.

It has been allocated to the FVtPL (Fair Value to Profit and Loss) measurement category. The investment is measured at fair value through profit or loss, gains and losses from the fair value measurement are reported in the net income.

Furthermore, other financial assets contain a bullet, interest-free, non-tradable or transferable promissory note against this company. If any capital increases take place, these are allocated proportionally to the respective company's equity. The promissory note represents a portion of the compensation that ElringKlinger receives for licensing. The fair value amounts to EUR 6,300 k as of the reporting date and is allocated to the FVtPL measurement category.

16 — Non-current income tax assets and other non-current assets

Non-current income tax assets include an investment income tax credit carried by ElringKlinger Automotive Components (India) Pvt. Ltd., based in Ranjangaon, India, of EUR 335 k (2019: EUR 295 k).

Other non-current assets include a receivable of ElringKlinger do Brasil Ltda., based in Piracicaba, Brazil, of EUR 1,227 k (2019: EUR 1,785 k), which results from a tax recoverable from the Brazilian government. This will be offset against the ongoing local tax gradually over a period of one year.

Other non-current assets also include a receivable due to a warranty event of EUR 750 k (2019: EUR 750 k).

17 — Costs to fulfill a contract

In accordance with IFRS 15, costs associated with fulfilling contracts with customers are capitalized if certain requirements are satisfied. As of December 31, 2020, the carrying amount of costs to fulfill a contract have increased to EUR 9,784 k (December 31, 2019: EUR 9,428 k).

18 — Non-current and current contract assets

As of December 31, 2020, the rolled forward carrying amount of the contract assets came to EUR 10,442 k (December 31, 2019: EUR 12,403 k). No significant events for impairment pursuant to IFRS 9 were identified.

19 — Inventories

EUR k	Dec. 31, 2020	Dec. 31, 2019
Raw materials, consumables and supplies	101,147	124,768
Work in progress	62,877	66,747
Finished goods and merchandise	128,383	155,953
Advance payments	8,096	9,009
Total	**300,503**	**356,477**

Impairments of EUR 18,766 k were recognized on inventories due to market risks and obsolescence (2019: EUR 17,765 k). Impairments and write-ups of inventories are recognized in cost of sales.

20 — Trade receivables, current income tax assets and other current assets

For trade receivables, valuation allowances of EUR 9,443 k (2019: EUR 3,708 k) were recognized for future credit risks.

The carrying amount of the trade receivables and other assets corresponds to their fair values.

Trade receivables do not bear interest and are generally due in 30 to 120 days.

Movements in the bad debt allowance for trade receivables and current assets are presented in the table below:

EUR k	2020	2019
As of Jan. 1	3,708	3,492
Additions	6,005	770
Reversals/utilizations	-586	-541
Change of risk parameters (IFRS 9)	459	0
Exchange rate effects	-143	-13
As of Dec. 31	**9,443**	**3,708**

Risk provisioning in the course of the coronavirus pandemic was accounted for by adjusting the risk parameters as well as a dedicated substantive test for affected customers. Subsequently, risk provisions of EUR 4,475 k were recognized in the financial year due to customers who are vulnerable to insolvency.

As of December 31, 2020, trade receivables with a carrying amount of EUR 60,839 k (2019: EUR 60,448 k) were sold as part of an ABCP program (Asset Backed Commercial Papers).

In the reporting period, receivables currently in execution with a carrying amount of EUR 586 k (2019: EUR 515 k) have been written off.

The impairment model takes into account the expected credit losses (expected credit loss model (ECL), where mainly forward-looking information is used. ElringKlinger applies the simplified impairment model of IFRS 9 and considers the lifetime expected losses from all receivables and active contract items.

The ratings from Standard & Poor's (S&P) or other well-known rating agencies are used as the basis for the impairment model. Future impairments are determined using these ratings and with the help of probability of default, also published by S&P.

The risk categories used for the model are also used as internal risk categories:

Internal credit rating	External rating by S&P	Probability of default	Basis for the recognition of the risk provision	Gross carrying amount
High creditworthiness	AAA – A	0.0%	Lifetime expected credit loss	18,617
Medium creditworthiness	BBB – B	0.0% – 11.0%	Lifetime expected credit loss	214,759
Low creditworthiness	CCC – C	11.0% – 50.0%	Lifetime expected credit loss	3,076
Default	D	50.0% – 100.0%	Impairment of assets	4,240
Risk provision pursuant to IFRS 9				9,443
Total				**231,249**

Current income tax assets mainly contain the corporate income tax credits of ElringKlinger México, S.A. de C.V., based in Toluca, Mexico, of EUR 3,102 k (2019: EUR 4,240 k) and ElringKlinger TR Otomotiv Sanayi ve Ticaret A.S., based in Bursa, Turkey, of EUR 1,506 k (2019: EUR 1,278 k).

Other current assets include tax receivables from VAT and other taxes of EUR 7,350 k (2019: EUR 18,240 k), time deposits and securities of EUR 10,522 k (2019: EUR 8,724 k) and other receivables from third parties including claims from the sale of receivables of EUR 53,565 k (2019: EUR 61,720 k), of which EUR 4,117 k (2019: EUR 12,920 k) relates to financial assets, EUR 14,298 k (2019: EUR 15,882 k) to other assets from factoring and EUR 8,607 k (2019: EUR 832 k) to financial derivatives.

21 — Cash and cash equivalents

The item cash and cash equivalents comprises cash and deposits held by the Group in current accounts. As in the previous year, there were no cash equivalents. No significant events for impairment pursuant to IFRS 9 were identified.

The carrying amount of these assets corresponds to their fair value.

22 — Assets and liabilities held for sale

The Group primarily focuses its strategic direction on areas of the future: lightweighting, electromobility, electric drive systems and fuel cell technology. Against this background, in the future the Group will work together with the French automotive supplier Plastic Omnium, based in Levallois, France, to further accelerate the hydrogen-based fuel cell technology. In October 2020, the Group reached an agreement with Plastic Omnium on the sale in full of the subsidiary ElringKlinger Fuelcell Systems Austria GmbH, based in Wels, Austria, which specializes in fuel cell technology solutions, for a purchase price of EUR 13,449 k. The acquisition agreement was signed on October 28, 2020. The closing of the transaction was completed on March 1, 2021; explanations have been provided under subsequent events.

The assets and liabilities of ElringKlinger Fuelcell Systems Austria GmbH allocated to the Original Equipment segment were reclassified to assets and liabilities held for sale in accordance with IFRS 5.

EUR k	Dec. 31, 2020
Intangible assets	1,563
Property, plant and equipment	3,443
Other non-current assets	60
Deferred tax assets	7
Non-current assets	**5,073**
Inventories	101
Other current assets	61
Cash and cash equivalents	14
Current assets	**176**
ASSETS	**5,249**
Non-current provisions	4
Non-current financial liabilities	1,244
Non-current provisions and liabilities	**1,248**
Trade payables	309
Current financial liabilities	158
Tax payable	38
Other current liabilities	166
Non-current provisions and liabilities	**671**
LIABILITIES AND EQUITY	**1,919**

23 — Equity

The changes in individual items of equity in the Group are shown separately in the "Statement of changes in equity".

The share capital of ElringKlinger AG amounted to EUR 63,359,990 as of December 31, 2020 and is divided into 63,359,990 registered shares, each entitled to a single vote. The share capital is paid in full. Each registered share represents a theoretical interest of EUR 1.00 of the share capital. Profit is distributed in accordance with Section 60 German Stock Corporation Act (Aktiengesetz, AktG) in conjunction with Section 23 no. 1 of the Articles of Association.

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the Company's share capital by issuing new shares for cash and/or in-kind contributions on one or more occasions, however by no more than EUR 31,679,995, by May 17, 2022 (Authorized Capital 2017). As a rule, the shareholders are entitled to subscription rights. The shares may also be acquired by one or more banks subject to the provision that they offer them to the shareholders for subscription. However, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude shareholder subscription rights

- in order to eliminate fractional amounts;
- if the capital increase against in-kind contributions is implemented specifically for the purpose of acquiring companies, parts of companies, equity investments classified as fixed financial assets or other assets in connection with an intended acquisition or within the framework of business combinations and the shares issued excluding the subscription rights do not exceed 10% of the capital stock, either on the date on which this authorization takes effect or on the date on which it is exercised;

- if the new shares are issued against cash contributions and if the issue price per new share does not fall significantly below the quoted price of shares already listed, and the shares issued without subscription rights pursuant to Section 186 (3) sentence 4 AktG, do not represent more than 10% of the share capital, either on the date on which this authorization takes effect or on the date on which it is exercised. The upper limit of 10% of share capital includes any shares issued or sold during the term of this authorization in exclusion of shareholders' subscription rights in direct or indirect application of Section 186 (3) sentence 4 AktG.

The Management Board has not exercised the authorization to date.

The capital reserves were essentially created from the premium from the 2010 capital increase.

The revenue reserves contain the earnings generated by the group companies which have not yet been distributed. There is also an amount of EUR 26,181 k arising from the first application of IFRSs in 2005.

Other reserves contain remeasurements of defined benefit plans, equity impact of controlling interests and currency translation differences.

Under the AktG, the distributable dividend is measured by the sum of retained earnings and the profit or loss for the year, as shown in the annual financial statements of ElringKlinger AG that have been drawn up according to the provisions of the German Commercial Code (HGB). In view of the Group's earnings performance in the financial year 2019, the Management Board and the Supervisory Board have jointly agreed to depart from the Group's established dividend policy and to suspend the dividend for the financial year 2019. Accumulated loss of EUR 11,566 k is reported in the financial year 2020 (2019: EUR 17,112 k). Therefore, the Management Board and Supervisory Board have decided jointly again not to distribute a dividend for the financial year 2020. The loss will carried forward to new account.

24 — Non-controlling interests in equity and net income

ElringKlinger AG holds less than 100% of the shares in some of the companies that have been included in the consolidated financial statements. In accordance with IFRS 10, the relevant non-controlling interests are reported under equity in the group statement of financial position, separately from the equity attributable to the shareholders of the parent company. Similarly, non-controlling interests in the net income and in total comprehensive income are reported separately in the group income statement and in the consolidated statement of comprehensive income.

25 — Provisions for pensions

The pension obligations of most of the Group's foreign companies mainly take the form of defined contribution plans while in the case of domestic companies and the group company in Switzerland, pension obligations take the form of defined benefit and defined contribution plans.

Under the **defined contribution plans** the Company pays contributions to state or private pension schemes on the basis of statutory or contractual obligations or on a voluntary basis. Once the contributions are paid, the Company has no further obligations, such as follow-up contribution payments. Current contribution payments are reported under personnel expenses in the reporting year; in the reporting year, the Group's contribution payments totaled EUR 27,033 k (2019: EUR 26,589 k) and are allocated to the relevant function costs.

The Group accounts for **defined benefit plans** by creating provisions for pensions that are calculated using the projected unit credit method pursuant to IAS 19. Under the defined benefit plans, the employees receive life-long pension payments once they have reached a certain age or suffered disability. In addition, surviving dependents also receive benefits. The amount of the benefit is determined by the number of years with the Company and the final salary. For employees subject to collective bargaining, the eligible service period is limited to 30 years. For executive employees, the benefit is limited to 35% or 45% of the terminal salary, whereby in certain cases the benefits from prior commitments do not count towards this limit.

In the financial year 2011, the ElringKlinger AG's pension system was partially modified. In order to secure pension payments going forward, the obligations to certain executive employees were transferred to Allianz Pensionsfonds AG, Stuttgart, and a provident fund covered by plan assets, the Allianz Pensions-Management e. V., Stuttgart. This does not affect the amount of benefits. The assets received by the pension fund constitute plan assets within the meaning of IAS 19.8 and are therefore netted against the obligation to the plan beneficiaries.

The pension plans of the Swiss Group company insure employees against the economic consequences of old age, disability and death. The pension benefits not covered by plan assets are covered by employer's pension liability insurance. No shortfall can arise from an agreement on an insured pension fund.

The obligations from the benefits granted are subject to certain risks. The main risks are interest rate risks, where falling market interest rates lead to a higher present value of the obligation in the future, inflation risks, which may lead to higher pension benefits and longevity risks where benefits are paid over a period longer than the one assumed in the mortality tables.

The following assumptions were used as a basis for measuring the Group's obligations.

Measurement as of	Dec. 31, 2020	Dec. 31, 2019
Discount rate (vesting period)	0.48%	0.90%
Discount rate (pension period)	0.37%	0.74%
Expected salary increases	2.70%	2.69%
Future pension increases	1.21%	1.50%

The changes in the present value of the defined benefit obligation are as follows:

EUR k	2020	2019
Present value of pension benefits as of Jan. 1	**178,167**	**152,966**
Current service cost	5,104	5,417
Plan participant contributions	1,477	1,847
Interest expense	1,444	2,513
Disbursements/utilization	-7,319	-7,507
Actuarial gains/losses	10,850	21,911
Past service cost	-1,672	0
Currency differences	-145	994
Other changes	57	26
Present value of pension benefits as of Dec. 31	**187,963**	**178,167**
of which (partially) covered by plan assets	60,499	58,765
of which not covered	127,464	119,402

The average weighted term of the defined benefit obligation amounts to 19 years (2019: 19 years).

Actuarial gains and losses arise from the following effects:

EUR k	2020	2019
Effects from changes in the interest rate	12,645	23,318
Effects from changes in demographic assumptions	15	-47
Effects from other experience-based adjustments	-1,810	-1,360
Actuarial gains/losses	**10,850**	**21,911**

The table below shows the changes to the plan assets over the course of the financial year:

EUR k	2020	2019
Market value as of Jan. 1	**29,952**	**28,565**
Interest income	159	334
Employer contributions	2,571	2,250
Plan participant contributions	1,477	1,847
Service costs	-3,411	-3,796
Actuarial gains/losses	190	9
Currency effects	90	743
Market value as of Dec. 31	**31,028**	**29,952**

Plan assets comprise insurance claims. The plan assets and present values of defined benefit obligations are allocated to key countries as follows:

EUR k	2020	2019
Present value of pension benefits as of Dec. 31		
Germany	151,812	142,096
Switzerland	30,096	29,943
Other	6,055	6,128
Present value of pension benefits as of Dec. 31	**187,963**	**178,167**
Market value of plan assets as of Dec. 31		
Germany	9,695	8,453
Switzerland	20,859	21,001
Other	474	498
Market value of plan assets as of Dec. 31	**31,028**	**29,952**

The actual return on plan assets amounts to EUR 350 k (2019: EUR 347 k).

In 2021, liquidity is likely to be reduced due to contributions to plan assets and by direct Group benefit payouts, which are expected to amount to EUR 4,182 k (2020: EUR 6,494 k). The future payments from pension obligations are as follows:

EUR k	2020	2019
For the next 12 months	4,182	6,494
Between one and five years	15,432	65,274
More than five years	238,682	257,853

The following amounts are reported in the income statement for defined benefit plans:

EUR k	2020	2019
Current service cost	5,104	5,417
Net interest expenses	1,284	2,179
Past service cost	-1,671	0
Administrative expenses plan assets	15	0
Total pension expense	**4,732**	**7,596**

Net interest expenses comprise interest expenses of EUR 1,444 k (2019: EUR 2,513 k) as well as interest income from plan assets of EUR 159 k (2019: EUR 334 k).

The current and past service cost is reported as part of the personnel expenses of the functional areas.

The full amount of actuarial gains and losses during the current year is reported under other comprehensive income. Changes are shown in the table below:

EUR k	2020	2019
Actuarial gains (–) and losses (+) recognized in other comprehensive income	10,660	21,911
Deferred taxes on actuarial gains (–) and losses (+) recognized under other comprehensive income	-3,084	-6,019

The amount of the Group's obligation as reported on the statement of financial position is derived as follows:

EUR k	2020	2019
Present value of the pension obligation	187,963	178,167
Fair value of plan assets	31,028	29,952
Reported pension provision	156,935	148,215

With regard to sensitivities, the key actuarial assumptions determined were the discount rate, salary increases and future pension developments.

A 0.5% increase/decrease in the discount rate would lead to a decrease/increase in the DBO of EUR 30,866 k/EUR 35,630 k.

A 0.5% increase/decrease in future salary increases would lead to an increase/decrease in the DBO of EUR 3,209 k/EUR 3,052 k.

A change in future pension developments of +0.25%/-0.25% would lead to an increase/decrease in the DBO of EUR 7,783 k/EUR 7,409 k.

26 — Other provisions

Other provisions can be broken down as follows:

EUR k	Dec. 31, 2020	Dec. 31, 2019
Current provisions	26,905	17,713
Non-current provisions	19,793	18,503
Total	**46,698**	**36,216**

Current provisions:

EUR k	Personnel obligations	Warranty obligations	Onerous contracts	Litigation costs	Other risks	Total
As of Dec. 31, 2019	**2,294**	**7,780**	**4,614**	**121**	**2,904**	**17,713**
Currency changes	-10	-448	-55	-5	-98	-616
Utilization	489	6,436	4,211	0	1,328	12,464
Reversal	86	276	122	62	414	960
Unwinding of the discount/ discounting	-4	0	0	0	0	-4
Additions	1,299	4,644	6,710	1,385	8,865	22,903
Reclassifications	0	200	0	0	133	333
Held for sale	0	0	0	0	0	0
As of Dec. 31, 2020	**3,004**	**5,464**	**6,936**	**1,439**	**10,062**	**26,905**

Current warranty obligations are counterbalanced by insurance reimbursements claims of EUR 147 k (2019: EUR 4,670 k). They are reported under other current assets. Provisions for other risks cover, among other things, the customs duty audit in the US of EUR 4,890 k as well as subsequent, volume-based price credit notes to customers of EUR 1,844 k.

Non-current provisions:

EUR k	Personnel obligations	Warranty obligations	Litigation costs	Other risks	Total
As of Dec. 31, 2019	**14,576**	**1,663**	**15**	**2,249**	**18,503**
Currency changes	-71	-16	0	-461	-548
Utilization	523	30	0	0	553
Reversal	55	35	0	42	132
Unwinding of the discount/discounting	66	0	0	0	66
Additions	2,702	5	0	87	2,794
Reclassifications	0	-200	0	-133	-333
Held for sale	-4	0	0	0	-4
As of Dec. 31, 2020	**16,691**	**1,387**	**15**	**1,700**	**19,793**

Non-current warranty obligations are counterbalanced by a claim of insurance reimbursement in the amount of EUR 750 k (2019: EUR 750 k), which is reported under other non-current assets.

Personnel provisions are recognized for phased retirement schemes, long-term service benefits and similar obligations.

The provision for warranties represents the most current estimate of management and was recognized on the basis of past experience and the industry average for defective products with regard to the Group's liability for a warranty of twelve months. In addition, specific individual warranties were taken into account.

The other risks relate to a variety of identifiable individual risks and uncertain obligations, which have been recognized as they are more likely than not to lead to an outflow of resources.

27 — Non-current and current financial liabilities

EUR k	Domestic (Germany)	Foreign	Total Dec. 31, 2020	Domestic (Germany)	Foreign	Total Dec. 31, 2019
Overdrafts	43,636	1,227	44,863	11,631	4,262	15,893
Lease liabilities with a residual term of less than one year	3,834	8,790	12,624	2,847	8,202	11,049
Financial liabilities with a residual term of less than one year	96,605	51,165	147,770	80,096	53,269	133,365
Current financial liabilities	**144,075**	**61,182**	**205,257**	**94,574**	**65,733**	**160,307**
Lease liabilities with a residual term of more than one year and less than five years	6,403	21,100	27,503	3,851	21,114	24,965
Financial liabilities with a residual term of more than one year and less than five years	232,132	83,492	315,624	412,057	96,711	508,768
Lease liabilities with a residual term of more than five years	7,797	16,186	23,983	198	10,495	10,693
Financial liabilities with a residual term of more than five years	24,810	0	24,810	25,990	0	25,990
Non-current financial liabilities	**271,142**	**120,778**	**391,920**	**442,096**	**128,320**	**570,416**
Total	**415,217**	**181,960**	**597,177**	**536,670**	**194,053**	**730,723**

Lease liabilities from IFRS 16 are described in more detail in Note (30) Hedging policy and financial instruments.

The average interest rates were:

in %	Dec. 31, 2020	Dec. 31, 2019
Overdrafts:		
Domestic (Germany)	1.25	4.08
Foreign	1.92	3.06
Financial liabilities:		
Domestic: less than one year	1.28	1.69
Domestic: more than one year and less than five years	1.69	1.68
Domestic: more than five years	2.08	1.85
Foreign: less than one year	3.05	3.50
Foreign: more than one year and less than five years	3.97	3.73
Foreign: more than five years		

Fixed interest rates have been agreed for financial liabilities amounting to EUR 416,257 k (2019: EUR 446,349 k).

Land charges on company land with a carrying amount of EUR 129,980 k (2019: EUR 130,694 k) are recognized as collateral. The secured liabilities amounted to EUR 20,188 k (2019: EUR 38,291 k) as of December 31, 2020.

As of December 31, 2020, the Group had unused lines of credit amounting to EUR 236,026 k (2019: EUR 150,487 k).

On February 15, 2019, ElringKlinger AG concluded a syndicated loan with a banking syndicate of six national and international banks, which was joined by one more bank during 2019. The syndicate comprises Commerzbank, Landesbank Baden-Württemberg and Deutsche Bank, who have arranged the financing jointly. In addition, DZ Bank, HSBC, Banque Européenne du Crédit Mutuel and Crédit Suisse (Schweiz) AG are also involved. The agreement comprises a total volume of EUR 350 million over a minimum term of five years. EUR 139,577 k had been drawn as of December 31, 2020 (2019: EUR 235,253 k).

28 — Current and non-current contract liabilities

Contract liabilities include long-term prepayments for customer-specific provisions of additional production capacity and short-term prepayments for customer-specific tools. As of December 31, 2020, the carrying amount of contract liabilities came to EUR 38,768 k (December 31, 2019: EUR 31,992 k). The increase in current contract liabilities in the financial year 2020 was mainly due to the change in prepayments received on account of orders of customer-specific systems and tools of EUR 10,569 k. By contrast, non-current liabilities decreased by EUR 4,388 k.

29 — Trade payables and other current and non-current liabilities

Trade payables and other non-current and current liabilities include open obligations from the exchange of goods and services.

The carrying amounts of trade payables approximate their fair value.

The trade payables and other current and non-current liabilities are not secured except for the retentions of title that are customary in trading relationships.

Other current liabilities from third parties contain financial liabilities of EUR 55,508 k (2019: EUR 51,882 k).

As of December 31, 2020, government grants of EUR 5,918 k (2019: EUR 6,231 k) were recognized as deferred income. This includes an investment allowance and a repayment allowance for a loan. These grants were provided for property, plant and equipment, particularly buildings and machinery at the locations in Dettingen/Erms, Germany, and Kecskemét-Kádafalva, Hungary. In the reporting period, a total of EUR 286 k (2019: EUR 313 k) of the deferred item was released through profit or loss. The release takes place in cost of sales.

30 — Hedging policy and financial instruments

Risks and hedging policy

As a consequence of the international nature of the activities of the ElringKlinger Group, changes in exchange rates, interest rates and prices of raw materials impact the financial performance, net assets and cash position of the Group. The risks arise from currency and interest rate fluctuations in connection with business operations and financing. Further risks result from fluctuations in the market prices of raw materials. Additionally, there are liquidity risks which relate to credit and market risks or accompany a deterioration of business operations and financial market turmoil.

By concluding hedges, the Management Board of ElringKlinger AG aims to manage the risk factors that may adversely affect the financial performance, net assets and cash position and thus to minimize these influences. Within the ElringKlinger Group, derivative financial instruments may only be entered into with the consent of the Management Board. Hedge accounting in accordance with IFRS 9 was not applied.

Currency risk

Due to the international nature of its business, the ElringKlinger Group is exposed to currency risks in the normal course of business.

Exchange rate risk arises for the Group in relation to its operating business principally when sales revenue is generated in a currency other than that in which the related costs are incurred. Sales revenue is generally generated in the functional currency (which is the relevant local currency) of the Group entity concerned. In order to reduce currency risks from operating business, the purchases of goods, raw materials and services as well as investing and financing activities are generally accounted for in the functional currency of the group entity. The group also endeavors to minimize its foreign currency risk by manufacturing its products in the relevant local sales markets.

Furthermore, to reduce the exchange rate risk, the central treasury department uses hedging instruments depending on the requirement and the risk profile. Subsidiaries are not permitted to take out financing in foreign currency or to invest it for speculative reasons. Intercompany financing and investment is usually denominated in the relevant functional currency.

Several ElringKlinger AG subsidiaries are domiciled outside the euro area. Since the euro is the reporting currency of the ElringKlinger Group, the income and expenses of these subsidiaries are translated into euros upon consolidation. Changes in the closing rates and changes in the closing rates compared to the average rates and historical rates can give rise to currency translation effects that are reflected in the equity of the Group under other comprehensive income.

Due to the inclusion of subsidiaries, the group also recognizes assets and liabilities relating to these subsidiaries outside of the euro area that are denominated in national currencies. When these assets are translated into euros, exchange rate fluctuations can lead to changes in value. The changes in these net assets are reflected in group equity under other comprehensive income.

A sensitivity analysis has been conducted in order to quantify the potential effects of exchange rate changes on consolidated net income. This analysis illustrates the change in consolidated net income in the event that the relevant functional currency of the Group companies appreciates or depreciates by 10% as compared to the foreign currency.

Dec. 31, 2020 EUR k Local currency	**EUR**	**CHF**	**MXN**	**USD**	**GBP**	**Other**	**Total**
Local currency +10%							
Consolidated net income	-10,893	2,954	2,759	1,987	1,189	2,619	615
Local currency -10%							
Consolidated net income	9,244	-2,954	-2,759	-1,987	-1,189	-2,619	-2,264

Dec. 31, 2019 EUR k Local currency	**EUR**	**MXN**	**USD**	**GBP**	**BRL**	**Other**	**Total**
Local currency +10%							
Consolidated net income	-9,171	4,999	3,086	1,101	677	2,340	3,032
Local currency -10%							
Consolidated net income	8,990	-4,999	-3,086	-1,101	-677	-2,340	-3,213

Interest rate risk

Interest rate risk arises primarily from financial liabilities that are subject to a floating rate of interest. The Group manages interest rate risk with the objective of optimizing its interest income and expense.

Fixed interest rates have been agreed mainly for the financing liabilities of the ElringKlinger Group. As a result, the risk arising from interest rate fluctuations is only slight.

Had market interest rates been 30 basis points higher as of December 31, 2020, earnings would have been EUR 361 k (2019: EUR 509 k) lower. Had market interest rates been 30 basis points lower, earnings would have been EUR 107 k (2019: EUR 191 k) lower.

Risk arising from prices for raw materials

ElringKlinger is exposed to risks from changes in the prices for the raw materials it uses in production. In order to mitigate fluctuations in the purchase prices for raw materials, ElringKlinger has entered into nickel hedges. Where necessary, it is possible to secure acceptable procurement prices by means of additional derivatives.

ElringKlinger processes a significant volume of high-grade stainless steels. This includes alloy surcharges, in particular for nickel, which is a listed metal subject to market price fluctuations. ElringKlinger uses derivative financial instruments to hedge portions of alloy surcharges assessed in cost calculations. A price corridor surrounding the average calculation cost is hedged. If the quoted exchange price of nickel exceeds the upper range of the corridor, ElringKlinger receives a compensatory payment. If the quoted exchange price of nickel falls below the lower range of the corridor, ElringKlinger has to pay a surcharge. As of the reporting date, there were three nickel hedges for a total of 180 metric tons of nickel. One nickel hedge ends on April 30, 2021, the two other end on June 30, 2021 and August 31, 2021.

The Group manages the credit risk of derivatives by entering into derivative financial transactions exclusively with major banks of impeccable creditworthiness in accordance with uniform guidelines.

Had the market value of nickel been 10% higher on December 31, 2020, earnings would have been EUR 181 k higher (2019: EUR 0 k). A 10% decrease in the market value would have resulted in a decrease in earnings of EUR 202 k (2019: EUR 0 k).

Credit risk

Credit risk defines the risk of economic loss arising from a counterparty's failure to satisfy contractual payment obligations.

Credit risk involves both the direct risk of default and the risk of a deterioration in creditworthiness as well as risks of a concentration of individual risks. The maximum risk exposures of financial assets generally subject to credit risk correspond to their carrying amounts and can be described as follows:

Liquid funds

Liquid funds comprise primarily bank deposits available on demand. The ElringKlinger Group is exposed to losses from credit risks in connection with the investment of liquid funds if financial institutions fail to meet their obligations (counterparty risk). In order to minimize this risk, care is taken in selecting the financial institutions at which deposits are made. The maximum risk exposure corresponds to the carrying amount of the liquid funds at the end of the reporting period.

Trade receivables

Trade receivables relate primarily to the global sales of gaskets, sealing materials, plastic products and modules for the automotive sector and for the manufacturing industry in general. Credit risk resides in the possibility of counterparty default, and is characterized by the Group's customer base, which includes a number of key accounts.

In domestic business, most receivables are secured by retention of title. In order to limit credit risk, credit checks in the form of inquiries with credit information services are performed for selected counterparties. Moreover, internal processes are in place to continually monitor receivables where partial or complete default may be anticipated.

As part of an ABCP program, the ElringKlinger Group sells a part of trade receivables to a structured entity. The sale will be on a revolving basis at the nominal value of receivables less variable reserves. The financing volume committed under the ABCP program is EUR 100 million. The structured entity is not controlled and therefore not consolidated.

As of December 31, 2020, trade receivables with a carrying amount of EUR 60,839 k (2019: EUR 60,448 k) were sold. They were derecognized with the exception of the ongoing interest of EUR 1,217 k (2019: EUR 1,207 k). A corresponding liability was recognized in the same amount. In connection with the provisional withholding of variable reserves, other current assets of EUR 14,297 k are reported as of December 31, 2020 (2019: EUR 15,882 k). In addition, customers payments received for receivables sold, which are yet to be forwarded to the purchaser, of EUR 22,594 k (2019: EUR 16,075 k) are reported under other current liabilities.

In its export business, ElringKlinger also assesses the credit standing of its counterparties by submitting inquiries to credit information services and on the basis of the specific country risk. In addition, credit insurance policies are taken out or letters of credit are required in certain cases. Trade receivables of EUR 20,652 k (2019: EUR 10,645 k) are secured by credit insurance policies.

Allowances are also recognized in respect of identifiable individual risks. The maximum risk exposure from trade receivables corresponds to the carrying amount of these receivables at the end of the reporting period. The carrying amounts of trade receivables, together with disclosures on valuation allowances, can be found under Note (20).

In 2020, the two largest customers accounted for 10.2% and 8.9% of sales (2019: 10.5% and 9.8%).

Liquidity risk

The solvency and liquidity of the ElringKlinger Group is constantly monitored by liquidity planning. Furthermore, a cash liquidity reserve and guaranteed credit lines ensure solvency and liquidity. Reference is also made to the financing risks presented in the risk report as part of the group management report of the ElringKlinger Group (Opportunity and risk report – Financial risks– Liquidity and financing risks).

Expected cash outflows

The following table shows all contractually fixed payments for redemptions, repayments and interest from financial liabilities recognized in the statement of financial position, including derivative financial instruments that have a negative market value.

EUR k	Trade payables	Financial liabilities	Liabilities from IFRS 16	Derivatives	Other current liabilities	Total
As of Dec. 31, 2020						
Carrying amount	**128,920**	**533,067**	**64,110**	**0**	**55,508**	**781,605**
Expected outflows:	**128,920**	**535,838**	**68,622**	**0**	**55,508**	**788,888**
– less than one month	64,546	5,246	1,082	0	0	70,874
– between one and three months	62,298	12,446	2,164	0	11,754	88,662
– between three months and one year	1,374	174,856	9,739	0	43,754	229,723
– between one and five years	344	318,480	29,949	0	0	348,773
– more than five years	358	24,810	25,688	0	0	50,856

EUR k	Trade payables	Financial liabilities	Liabilities from IFRS 16	Derivatives	Other current liabilities	Total
As of Dec. 31, 2019						
Carrying amount	**157,119**	**684,015**	**46,707**	**1,210**	**51,882**	**940,933**
Expected outflows:	**157,119**	**690,905**	**52,203**	**1,210**	**51,882**	**953,319**
– less than one month	100,688	23,223	998	0	0	124,909
– between one and three months	51,835	29,086	2,007	0	15,144	98,072
– between three months and one year	2,998	101,022	9,048	1,210	36,738	151,016
– between one and five years	1,298	500,585	28,089	0	0	529,972
– more than five years	300	36,989	12,061	0	0	49,350

Further disclosures on financial liabilities are provided under Note (27).

31 — Additional information on financial instruments

This section provides a comprehensive overview of the significance of financial instruments and offers additional information on line items of the statement of financial position containing financial instruments. No recognized financial instruments were offset.

The following table shows the carrying amounts (CA) and fair values (FV) of financial assets:

	Cash and cash equivalents	Trade receivables	Other current assets
EUR k	CA	CA	CA
As of Dec. 31, 2020			
Financial assets measured at amortized cost	127,852	231,249	14,639
Financial assets at fair value through profit or loss	0	0	0
Financial assets at fair value through other comprehensive income	0	0	0
Total	**127,852**	**231,249**	**14,639**
As of Dec. 31, 2019			
Financial assets measured at amortized cost	135,450	233,231	22,294
Financial assets at fair value through profit or loss	0	0	0
Financial assets at fair value through other comprehensive income	0	0	0
Total	**135,450**	**233,231**	**22,294**

The following table shows the carrying amounts (CA) and fair values (FV) of financial liabilities:

	Other current liabilities	Current financial liabilities	Short-term lease liabilities IFRS 16	Trade payables
EUR k	CA	CA	CA	CA
As of Dec. 31, 2020				
Financial liabilities measured at amortized cost	55,508	192,633	12,624	128,920
Financial liabilities measured at fair value through profit or loss	0	0	0	0
As of Dec. 31, 2019				
Financial liabilities measured at amortized cost	51,882	149,181	11,049	157,119
Financial liabilities measured at fair value through profit or loss	0	0	0	0

	Derivatives	Non-current securities		Other financial assets		Total
	CA	CA	FV	CA	FV	CA
	0	1,438	1,451	2,008	2,008	377,186
	8,607	0	0	11,561	11,561	20,168
	0	73	73	8	8	81
	8,607	**1,511**	**1,524**	**13,577**	**13,577**	**397,435**
	0	1,438	1,443	2,008	2,008	394,421
	832	0	0	0	0	832
	0	97	97	8	8	105
	832	**1,535**	**1,540**	**2,016**	**2,016**	**395,358**

	Derivatives		Non-current financial liabilities		Long-term lease liabilities IFRS 16	Total
	CA	FV	CA	FV	CA	CA
	0	0	340,434	329,093	51,486	781,605
	26	26	0	0	0	26
	0	0	534,724	489,862	35,658	939,613
	1,210	1,210	0	0	0	1,210

Management determined that the carrying amounts of cash, trade receivables, other current assets, trade payables, other current financial liabilities and other current liabilities are virtually the same as their fair value, primarily as a result of the short-term nature of these instruments.

Other current assets also include time deposits and securities of EUR 10,522 k (December 31, 2019: EUR 8,724 k).

ElringKlinger determines the market value of non-current fixed-interest liabilities to banks and derivatives by discounting expected future cash flows with the current prevailing interest rates for similar financial liabilities with comparable residual terms and the company-specific risk rate.

Other current liabilities contain a liability of EUR 36,913 k (December 31, 2019: EUR 30,252 k) resulting from the written put option on non-controlling interests of ElringKlinger Marusan Corporation, Tokyo, Japan. The obligation that results from this agreement is measured at acquisition cost in the amount of its fair value. The fair value is calculated using internal estimates made when forecasting business development as well as when selecting the interest rate used regarding the liability recognized. A 10% change in the business value causes the put option to increase/decrease by approximately EUR 3,691 k (December 31, 2019: EUR 3,025 k).

Equity instruments of the measurement category **at fair value recognized through other comprehensive income:**

EUR k	Fair value Dec. 31, 2020	Fair value Dec. 31, 2019
Non-current securities	73	97
Other financial assets	8	8
Total	**81**	**105**

Financial assets and liabilities measured at fair value are classified into the following 3-level fair value hierarchy as of the valuation date December 31, 2020:

EUR k	Level 1	Level 2	Level 3
Dec. 31, 2020			
Financial assets			
Non-current securities	73	0	0
Other financial assets	8	0	11,561
Derivatives*	0	8,607	0
Total	**81**	**8,607**	**11,561**
Financial liabilities			
Derivatives*	0	26	0
Total	**0**	**26**	**0**

EUR k	Level 1	Level 2	Level 3
Dec. 31, 2019			
Financial assets			
Non-current securities	97	0	0
Other financial assets	8	0	0
Derivatives*	0	832	0
Total	**105**	**832**	**0**
Financial liabilities			
Derivatives*	0	1,210	0
Total	**0**	**1,210**	**0**

* These are derivatives which do not meet the prerequisites for hedge accounting.

The following table presents the allocation of financial assets and liabilities not measured at fair value, but for which fair value is disclosed, to the 3-level fair value hierarchy as of the measurement date December 31, 2020:

EUR k	Level 1	Level 2	Level 3
Dec. 31, 2020			
Financial assets			
Non-current securities	1,451	0	0
Other financial assets	0	0	2,008
Total	**1,451**	**0**	**2,008**
Financial liabilities			
Non-current financial liabilities	0	329,093	0
Purchase price liability from written put option	0	0	36,913
Total	**0**	**329,093**	**36,913**
Dec. 31, 2019			
Financial assets			
Non-current securities	1,443	0	0
Other financial assets	0	0	2,008
Total	**1,443**	**0**	**2,008**
Financial liabilities			
Non-current liabilities from financial leases	0	0	0
Non-current financial liabilities	0	502,152	0
Purchase price liability from written put option	0	0	30,252
Total	**0**	**502,152**	**30,252**

The levels of the fair value hierarchy are defined as follows:

Level 1: Measurement based on market prices.

Level 2: Measurement based on market prices for similar instruments on the basis of measurement models based on inputs that are observable on active markets.

Level 3: Measurement based on inputs for assets and liabilities not representing observable market data.

The fair value (equity value) of the minority interest in Aerostack GmbH, Dettingen/Erms, Germany of EUR 4,200 k is determined using a discounted cash flow model taking account of probability-weighted scenarios. The weighted average cost of capital (WACC) applied for the valuation is 8.46%. Assuming a successful implementation of the business plan, the terminal value is determined by applying a terminal growth rate (TGR) of 2.0%. The WACC and TGR sensitivities calculated for the parameters are presented in the following table:

		+0.5% points	-0.5% points
WACC	8.46%	8.96%	7.96%
Equity value	4,200	3,041	5,684
		+0.5% points	-0.5% points
TGR	2.00%	2.50%	1.50%
Equity value	4,200	4,724	3,809

The fair value of the bullet, interest-free, non-tradable or transferable promissory note to this company with a nominal amount of EUR 6,800 k is measured taking into account an expected successive contribution to the equity of the company in the course of capital increases in the years 2021 to 2024 and a risk-equivalent and maturity-specific cost of debt of 2.9%. The fair value amounts to EUR 6,300 k. An increase or decrease in WACC of 0.5% results, all other things being equal, in a fair value of EUR 6,259 k or EUR 6,411 k, respectively.

An assessment is made at the end of every reporting period as to whether the assets and liabilities accounted for at fair value have been transferred between the levels of the fair value hierarchy.

The liabilities of fair value level 3 developed as follows:

EUR k	2020	2019
As of Jan. 1	**30,252**	**30,030**
Change in fair value	6,661	222
As of Dec. 31	**36,913**	**30,252**

Net gains/losses on financial instruments:

EUR k	2020	2019
At fair value recognized in profit or loss*	7,093	-755
Financial assets measured at amortized cost	4,279	1,894
Financial liabilities measured at amortized cost	-21,405	-1,084

* These are derivatives which do not meet the prerequisites for hedge accounting.

Net gains and losses from derivatives include the effects from changes in market values, which were recorded in full in profit or loss for the period.

Net gains and losses from financial assets measured at amortized cost primarily consist of currency effects.

Net gains from financial liabilities measured at amortized cost include currency effects.

Total interest income and expenses for financial assets and financial liabilities not measured at fair value through profit or loss are as follows:

EUR k	2020	2019
Total interest income	831	1,200
Total interest expense	-15,388	-18,699

As in the previous year, total interest income does not contain any interest income from impaired financial assets.

32 — Leases

The following amounts are reported in the income statement for leases:

EUR k	2020	2019
Cost of sales		
Expenses relating to short-term leases	1,712	1,543
Expenses from small ticket leases	118	250
Expenses from variable lease payments	44	0
Other expenses from leases (ancillary costs)	385	411
Depreciation and amortization		
Depreciation of right-of-use assets	14,266	12,865
Impairment of right-of-use assets	3,163	0
Net finance costs		
Interest expenses from lease liabilities	1,176	1,299
Income from currency translation of lease liabilities	543	344
Expenses from currency translation of lease liabilities	0	4

Information on expected cash outflows is contained in Note (30) Hedging policy and financial instruments.

33 — Capital management

ElringKlinger believes that the Group's sound financial base is a prerequisite for further growth. The Group's solid capital resources render it possible to invest in future organic growth, as well as in external growth.

The Management Board of the parent company has set a target equity ratio of 40% to 50% within the Group. ElringKlinger AG's Articles of Association do not define any capital requirements.

The Management Board is authorized to buy back company shares up to a total amount of 10% of share capital existing at the date on which this resolution was passed (July 7, 2020). The authorization is valid until July 7, 2025. There are no share option programs that impact the capital structure.

The following table presents changes in equity, debt and total capital as of December 31, 2020 as compared to December 31, 2019.

EUR million	2020	2019
Equity	**812.9**	**891.2**
as % of total capital	41.41%	41.52%
Non-current liabilities	597.3	773.5
Current liabilities	551.0	481.8
Liabilities in connection with the assets held for sale	1.9	0
Liabilities	**1,150.2**	**1,255.3**
as % of total capital	58.59%	58.48%
Total capital	**1,963.1**	**2,146.5**

The change in equity from December 31, 2019 to December 31, 2020 was due primarily to a decrease in other reserves and the net loss. Debt decreased year on year by 8.37%.

At 41.41%, the Group equity ratio achieved the 40% target equity ratio set by the Supervisory Board and Management Board.

For one loan at a subsidiary, financial covenants have been agreed upon. These affect the equity ratio and gearing factor. If these covenants are breached, the terms of the loan change and the loan becomes immediately callable.

As of December 31, 2020, there were no issues prevailing that would have justified banks exercising their unilateral right of termination. The Management Board expects that the financial covenants agreed will be reached in the financial year 2021.

34 — Notes to the statement of cash flows

The group statement of cash flows shows how the liquidity of the ElringKlinger Group has changed as a result of cash inflows and outflows in the course of the financial year. In accordance with IAS 7, cash flows are categorized as cash flows from operating activities, investing activities or financing activities.

The cash reported in the statement of cash flows comprises liquid funds reported in the statement of financial position, i. e., cash in hand, checks and bank deposits.

Cash flows from investing and financing activities are determined by reference to payments. By contrast, cash flows from operating activities are derived indirectly from earnings before taxes for the year. For the indirect computation, effects from currency translation and changes to the basis of consolidation are eliminated from the changes to the items of the statement of financial position arising from operating activities. For this reason, it is not possible to reconcile the changes in the relevant items of the statement of financial position with the corresponding figures in the published group statement of financial position.

Change in liabilities from financing activities:

EUR k	Non-current financial liabilities	Current financial liabilities
Dec. 31, 2019	570,416	160,307
Changes in cash	-92,422	-61,658
Exchange rate differences	-8,942	-4,142
Non-cash changes[2]	-77,132	110,750
Dec. 31, 2020	**391,920**	**205,257**
Dec. 31, 2018	472,005	296,786
Adjustment carryforward new standards[1]	36,133	9,274
Changes in cash	127,428	-230,435
Exchange rate differences	2,578	2,155
Non-cash changes[2]	-67,728	82,527
Dec. 31, 2019	**570,416**	**160,307**

[1] IFRS 16

[2] This primarily includes reclassifications between non-current and current financial liabilities and leases-related matters.

Cash outflows from leases are contained in the statement of cash flows as follows:

EUR k	2020	2019
Repayments for lease liabilities (cash flow from financing activities)	14,693	11,758
Interest paid (cash flow from operating activities)	1,176	1,299
Short-term or small ticket leases (cash flow from operating activities)	1,785	1,793
Expenses from variable lease payments	44	0
Total	**17,698**	**14,850**

Cash inflows of EUR 17.3 million received as part of a sale and leaseback transaction are reported under cash flow from investing activities.

35 — Segment reporting

The organizational and internal reporting structure of the ElringKlinger Group is centered around its five business fields. Accordingly, the segments are defined as "Original Equipment", "Aftermarket", "Engineered Plastics" and "Other".

The activities in the "Original Equipment" and "Aftermarket" reporting segments relate to the manufacturing and distribution of parts and components for the engine, transmission and exhaust system and lightweight plastic components in motor vehicles (powertrain), as well as battery and fuel cell components and tools machining.

The "Engineered Plastics" segment manufactures and distributes technical products made of high-performance PTFE plastics for the vehicle and general industrial sectors.

Since January 1, 2020, the former segments "Services" and "Industrial Parks" are combined in the "Other" segment. The prior-year figures have been adjusted accordingly.

The "Consolidation" column in the "Segment reporting" table below provides an overview of consolidation entries between the segments. Internal control and reporting are based on IFRS. With the exception of the Original Equipment segment's provision of supplies to the Aftermarket segment, the extent of trade between the individual segments is insignificant. The exchange of goods and/or services between the segments takes place at arm's-length prices.

The Original Equipment segment contains an impairment loss of EUR 24,218 k.

10.2% or EUR 151,000 k of the Group sales revenue (2019: 10.5% or EUR 182,043 k) was generated with one customer in the segment Original Equipment.

Segment reporting

Segment	Original Equipment		Aftermarket		Engineered Plastics	
EUR k	2020	2019	2020	2019	2020	2019
External revenue	**1,186,065**	**1,423,448**	**182,473**	**172,610**	**107,554**	**117,451**
Intersegment revenue	23,217	23,012	0	0	17	66
Segment revenue	**1,209,282**	**1,446,460**	**182,473**	**172,610**	**107,571**	**117,517**
EBIT[1]	**-23,673**	**5,123**	**38,982**	**30,406**	**14,038**	**15,850**
Depreciation and amortization[2]	116,468	106,812	3,787	3,862	7,079	6,681
Capital expenditures[3]	87,304	115,804	2,214	4,773	4,141	7,043
Segment assets	1,723,143	1,894,357	112,028	107,569	127,521	131,011

Segment	Other		Consolidation		Group	
EUR k	2020	2019	2020	2019	2020	2019
External revenue	**4,346**	**13,516**	**0**	**0**	**1,480,438**	**1,727,025**
Intersegment revenue	7,650	7,952	-30,884	-31,030	0	0
Segment revenue	**11,996**	**21,468**	**-30,884**	**-31,030**	**1,480,438**	**1,727,025**
EBIT[1]	**-1,611**	**9,854**	**0**	**0**	**27,736**	**61,233**
Depreciation and amortization[2]	2,167	2,377	0	0	129,501	119,732
Capital expenditures[3]	12,707	2,371	0	0	106,366	129,991
Segment assets	32,948	44,151	-32,527	-30,593	1,963,113	2,146,495

[1] Earnings before interest and taxes
[2] Depreciation and amortization
[3] Investments in intangible assets and property, plant and equipment and investment property

Segment reporting by region

Region EUR k		Sales revenues[1]	Non-current assets	Investments
Germany	2020	355,616	536,577	67,176
	2019	394,996	548,261	57,991
Rest of Europe	2020	423,404	233,757	10,104
	2019	494,234	268,761	15,536
North America	2020	367,730	213,184	22,271
	2019	450,871	243,816	37,505
Asia-Pacific	2020	274,779	184,761	5,984
	2019	309,996	207,640	17,232
South America and rest of the world	2020	58,909	14,795	831
	2019	76,928	23,355	1,727
Group	**2020**	**1,480,438**	**1,183,074[2]**	**106,366**
	2019	**1,727,025**	**1,291,833[2]**	**129,991**

[1] The location of the customer is used to determine allocation of sales revenues to the regions
[2] This includes financial assets of EUR 15,088 k (previous year: EUR 3,551 k)

Other disclosures

Contingent liabilities

As in the previous year, the ElringKlinger Group does not have any contingent liabilities stemming from guarantees, performance bonds or bills of exchange issued.

Other financial commitments

Energy purchase commitments

EUR k	Dec. 31, 2020	Dec. 31, 2019
Less than one year	13,509	13,180
More than one year and less than five years	13,786	12,863
Total	**27,295**	**26,043**

Proceeds from lease agreements

The future lease payments due to ElringKlinger from lease contracts from letting the Idstein industrial park and space to a development cooperation partner at the Dettingen/Erms location break down as follows:

EUR k	Dec. 31, 2020	Dec. 31, 2019
Less than one year	218	18
More than one year and less than five years	476	9
More than five years	0	0
Total	**694**	**27**

Contingent assets and liabilities

As of the reporting date, there were no contingent assets and liabilities.

Number of employees

The average number of employees during the year (excluding Management Board members) was as follows:

	2020	2019
Employees	9,832	10,247
Trainees	181	210
Total	**10,013**	**10,457**

Personnel expenses

Personnel expenses in the reporting year amounted to EUR 472,105 k (2019: EUR 544,394 k) and break down as follows:

EUR k	Dec. 31, 2020	Dec. 31, 2019
Wages and salaries	401,318	464,854
Social security contributions	62,415	70,506
Post-employment benefit	8,372	9,034
Total	**472,105**	**544,394**

Personnel expenses contain public grants related to income in Germany, Switzerland and Canada of EUR 14,766 k in connection with the utilization of government-subsidized short-time work allowances and the associated reimbursement of social security contributions.

Related-party disclosures

Transactions between the parent company, ElringKlinger AG, and its subsidiaries are eliminated in the course of consolidation and are therefore not discussed in this note. Other than these, the following business relationships exist between companies of the ElringKlinger Group and related parties and companies controlled by related parties:

Cooperation agreement between ElringKlinger AG and Lechler GmbH, Metzingen, concerning traineeships. The deceased Prof. Walter H. Lechler held a significant interest in ElringKlinger AG and control over Lechler GmbH. The testamentary disposition of Prof. Lechler regarding the shares he held has yet to be conclusively implemented. ElringKlinger AG earned EUR 34 k during the reporting year (2019: EUR 52 k). Receivables outstanding amounted to EUR 15 k as of the reporting date (2019: EUR 10 k).

Agreement between ElringKlinger Logistic Service GmbH, Rottenburg-Ergenzingen (EKLS), and Lechler GmbH, Metzingen, regarding assembly activities and the storage of components. This agreement gave rise to EUR 474 k in sales revenue during the reporting year (2019: EUR 550 k). As of December 31, 2020, there were open receivables of EUR 35 k (2019: EUR 33 k).

Business relations between the ElringKlinger subsidiary, Changchun ElringKlinger Ltd., Changchun, China, (CEK), and Changchun Hongyu Automobile Parts Co., Ltd. (CHYAP), based in Changchun, China, controlled by Ms. Liu, a close relative of Mr. Huang, who is a joint partner in CEK. CEK procured EUR 8 k worth of services under these business relations in 2020 (2019: EUR 12 k). As of December 31, 2020, there are liabilities of EUR 2 k (2019: EUR 1 k).

Loan agreement between Lechler GmbH and ElringKlinger AG. Lechler GmbH granted ElringKlinger AG loans totaling EUR 5,000 k (2019: EUR 12,000 k). The funds granted concern a loan extended as of June 19, 2020. The loan carries an interest rate of 1.40% p.a. and has a term until January 7, 2021. In the reporting year, a loan of EUR 7,000 k was repaid to Lechler GmbH.

Supply agreement between Lechler GmbH and KOCHWERK Catering GmbH, (EKKW), Dettingen/Erms, a wholly owned subsidiary of ElringKlinger AG. EKKW supplies Lechler GmbH with canteen food. Sales revenue of EKKW amounted to EUR 95 k in the reporting year (2019: EUR 134 k). As of the reporting date, outstanding receivables came to EUR 9 k (2019: EUR 12 k).

Relationships in the course of ordinary activities exist between various subsidiaries of hofer AG, Nürtingen, and the ElringKlinger subsidiary hofer powertrain products GmbH, Nürtingen, as well as hofer powertrain products UK Ltd., Warwick, UK. The business dealings pertain to services received and other expenses of EUR 5,363 k (2019: EUR 2,119 k). Outstanding liabilities come to EUR 3,404 k as of December 31, 2020 (2019: EUR 788 k). At EUR 5,055 k (2019: EUR 1,850 k), the services received mainly relate to services for sales, project management and product development and an amount of EUR 269 k (2019: EUR 269 k) for a rent agreement between hofer powertrain products GmbH, Nürtingen and the subsidiary of hofer AG, hofer Immobilien UG & Co. KG, Nürtingen, for the rent of office and production space in Nürtingen. The goods and services received, and other expenses are counterbalanced by income from development services rendered or from delivery of machines and tools of EUR 2,358 k (2019: EUR 1,750 k). Outstanding liabilities as of December 31, 2020 come to EUR 347 k (2019: EUR 1,707 k).

The salaries of the employee representatives to the Supervisory Board are in line with market conditions.

Corporate Bodies

Supervisory Board

Klaus Eberhardt Lindau, Chairman	Independent consultant, Lindau Former CEO of Rheinmetall AG, Düsseldorf **Governance roles:** a) MTU Aero Engines AG, Munich b) n/a
Markus Siegers* Nürtingen, Deputy Chairman	Chairman of the Works Council of ElringKlinger AG, Dettingen/Erms
Nadine Boguslawski* Stuttgart until July 7, 2020	Principal Authorized Representative of IG Metall Stuttgart, Stuttgart **Governance roles:** a) Robert Bosch GmbH, Gerlingen-Schillerhöhe b) n/a
Armin Diez* Lenningen	Vice President of the Battery Technology/E-Mobility Division at ElringKlinger AG, Dettingen/Erms **Governance roles:** a) n/a b) e-mobil BW GmbH, Stuttgart
Pasquale Formisano* Vaihingen an der Enz until July 7, 2020	Former Chairman of the Works Council of Elring-Klinger Kunststofftechnik GmbH, Bietigheim-Bissingen
Rita Forst Dörsdorf	Independent consultant, Dörsdorf Former member of the Management Board of Adam Opel AG, Rüsselsheim **Governance roles:** a) NORMA Group SE, Maintal b) AerCap Holdings N. V., Dublin, Ireland Joh. Winklhofer Beteiligungs GmbH & Co. KG, Munich Westport Fuel Systems Inc., Vancouver, Canada
Andreas Wilhelm Kraut Balingen	Chairman and CEO of Bizerba SE & Co. KG, Balingen
Helmut P. Merch Meerbusch since July 7, 2020	Member of the Management Board of Rheinmetall AG **Governance roles:** a) n/a b) Rheinmetall Automotive AG, Neckarsulm Rheinmetall Denel Munition (PTY) Ltd., Somerset, South Africa

Gerald Müller* Reutlingen	Second Authorized Representative and Treasurer of IG-Metall Reutlingen-Tübingen, Reutlingen
Paula Monteiro-Munz* Grabenstetten	Deputy Chairwoman of the Works Council of ElringKlinger AG, Dettingen/Erms
Barbara Resch* Stuttgart since July 7, 2020	Secretary of IG Metall Baden-Württemberg **Governance roles:** a) Schaeffler AG, Herzogenaurach Rheinmetall AG, Düsseldorf b) n/a
Prof. Hans-Ulrich Sachs Bremen until July 7, 2020	Managing Partner of betec Umformtechnik GmbH, Adelmannsfelden
Gabriele Sons Berlin	Lawyer, Berlin Former member of the Management Board of thyssenKrupp Elevator AG, Essen **Governance roles:** a) Grammer AG, Ursensollen b) Board of Directors, TÜV Rheinland Berlin Brandenburg Pfalz e. V., Cologne
Manfred Strauß Stuttgart	Managing Partner of M&S Messebau und Service GmbH, Neuhausen a. d. F. **Governance roles:** a) n/a b) Pro Stuttgart Verwaltungs GmbH, Stuttgart Pro Stuttgart Verkehrsverein, Stuttgart Lechler GmbH, Metzingen Eroca AG, Basel, Switzerland
Olcay Zeybek* Bad Urach since July 7, 2020	Head of Accounting

* Employee representative
a) Membership in statutory Supervisory Boards as defined by Section 125 AktG
b) Membership in comparable domestic and foreign control bodies as defined by Section 125 AktG

Remuneration of the Supervisory Board

In the period under review, total compensation for the Supervisory Board of ElringKlinger AG was EUR 889 k (2019: EUR 589 k). Additionally, travel expenses totaling EUR 2 k (2019: EUR 2 k) were reimbursed. The remuneration of the employee representatives in the Supervisory Board amounted to EUR 722 k in the financial year 2020 (2019: EUR 714 k) for their activities as employees.

Management Board

Dr. Stefan Wolf, Bad Urach, Chairman	Responsible for Group companies, the corporate units Legal, HR, Global Strategy M&A and Innovations, Strategic Communications, Marketing & Communications and Sales as well as the business unit Aftermarket
Theo Becker, Metzingen	Responsible for the business units Battery Technology & E-Mobility, Fuel Cell and Drivetrain as well as the corporate units of Purchasing, Real Estate & Facility, Product Risk Management as well as Toolshop/Technology
Reiner Drews, Dettingen/Erms	Responsible for the business units Lightweight/Elastomer, Shielding Technology, Metal Sealing Systems & Drivetrain Components as well as the corporate units of Production, Quality & Environmental Management as well as the German locations ElringKlinger AG
Thomas Jessulat, Stuttgart	Responsible for the corporate units Finance, Controlling, IT und Supply Chain

Governance roles in supervisory boards and other supervisory bodies

Dr. Stefan Wolf, Bad Urach, Chairman	Member of the Supervisory Board of ALLGAIER Werke GmbH, Uhingen, and member of the Supervisory Board of Duale Hochschule Baden-Württemberg (DHBW) KöR, Stuttgart
Theo Becker, Metzingen	Member of the Supervisory Board of BLANC & FISCHER Familienholding GmbH, Oberderdingen
Thomas Jessulat, Stuttgart	Chairman of the Supervisory Board of hofer AG, Nürtingen

Remuneration of the Management Board

The remuneration of the Management Board amounted to:

EUR k	2020	2019
Short-term fixed remuneration	2,700	1,742
Short-term variable performance-based remuneration	1,347	2,161
Expenses from post-employment benefits	197	838
Total	**4,244**	**4,741**

In the financial year, total Management Board remuneration pursuant to Section 314 (1) no. 6a sentence 1 to 4 HGB came to EUR 4,047 k (2019: EUR 3,903 k). The present value (DBO) of the pension provisions amounted to EUR 12,928 k (2019: EUR 13,336 k).

Provisions for pensions and remuneration for former members of the Management Board

Provisions of EUR 17,171 k (2019: EUR 17,050 k) were recognized for pension obligations to former members of the Management Board, the management of merged companies, and their surviving dependents. The total remuneration of former members of the Management Board – including remuneration of former members of corporate bodies of merged companies – came to EUR 914 k in the financial year 2020 (2019: EUR 890 k).

The auditor fees amounted to:

EUR k	2020	2019
Audit of the annual financial statements	681	770
Other assurance services	54	33
Tax services	25	0
Total	**760**	**803**

The audit services include fees for mandatory audits of financial statements as well as fees for the mandatory audit of the consolidated financial statements. The other assurance services comprise fees for review work in connection with the non-financial statement and assurance services related to the syndicated loan agreement and factoring. In addition, tax services were rendered in connection with a project.

Declaration of compliance with the German Corporate Governance Code

The Management Board and Supervisory Board issued a declaration of compliance pursuant to Section 161 AktG on the German Corporate Governance Code in the version dated December 16, 2019 and published it on the ElringKlinger AG website on December 3, 2020. This declaration of compliance will be available on the ElringKlinger AG website and therewith made permanently available to shareholders.

Events after the end of the reporting period

On October 28, 2020, ElringKlinger reached an agreement with the French automotive supplier Plastic Omnium, based in Levallois, France, to drive forward the development, production and marketing of fuel cell stacks in a joint entity. ElringKlinger will hold 60% of the shares and Plastic Omnium 40% of the shares in the entity based in Dettingen/Erms. ElringKlinger will contribute its complete fuel cell portfolio including employees, know-how and patents; Plastic Omnium will invest EUR 100 million to expand the capacity. In addition, an agreement was signed according to which Plastic Omnium acquires the Austrian ElringKlinger subsidiary, ElringKlinger Fuelcell Systems Austria, Wels, Austria, which specializes in fuel cell technology solutions, for a purchase price of EUR 13,449 k. Both the agreements were provided to the antitrust authorities and are subject to the customary legal requirements. The transaction closing was executed on March 1, 2021.

There were no further significant events after the reporting date that would require additional disclosures.

Dettingen/Erms, March 25, 2021
The Management Board

Dr. Stefan Wolf CEO	Theo Becker	Thomas Jessulat	Reiner Drews

Audit Opinion

Independent auditor’s report

To ElringKlinger AG

Report on the audit of the consolidated financial statements and of the Group management report

Opinions

We have audited the consolidated financial statements of ElringKlinger AG and its subsidiaries (the Group), which comprise the consolidated income statement, and the consolidated statement of comprehensive income for the financial year from January 1 to December 31, 2020, the consolidated statement of financial position as of December 31, 2020, the consolidated statement of cash flows and the consolidated statement of changes in equity for the financial year from January 1 to December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the Group management report of ElringKlinger AG, which is combined with the management report of the Company, for the financial year from January 1, to December 31, 2020. In accordance with the German legal requirements, we have not audited the content of the Group statement on corporate governance pursuant to Section. 315d German Commercial Code (Handelsgesetzbuch, “HGB”), which is published on the website stated in the Group management report and is part of the Group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as of December 31, 2020 and of its financial performance for the financial year from January 1 to December 31, 2020, and
- the accompanying Group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the Group statement on corporate governance referred to above.

Pursuant to Section 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the Group management report in accordance with Section 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements and of the group management report” section of our auditor’s report. We are independent of the Group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the

EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. Impairment testing of goodwill

Reasons why the matter was determined to be a key audit matter

According to IFRS standards, goodwill is not subject to amortization. The Management Board annually tests the goodwill capitalized for the cash-generating unit (segments) in accordance with IAS 36 for impairment. This involves comparing the recoverable amount of the cash-generating unit with its carrying amount. The recoverable amount is the value in use. As a rule, the basis of these measurements is the present value of future cash flows of cash-generating units to be measured to which goodwill was allocated. The determination of present value is based on internal budget forecasts of affiliated companies, which are part of the business plan approved by the Management Board and the Supervisory Board. The discounting is based on the weighted average cost of capital (WACC) for each cash-generating unit. The result of these measurements depends chiefly on the executive directors’ estimates of the future cash flows of the respective cash-generating units as well as the discount rate applied and is thus subject to judgment. In addition, the reporting year was marked by the Covid-19 pandemic and the accompanying significant slump in sales revenue and earnings in the automotive sector. The severity of this development in the geographic regions in which the Group entities operate was varied. Against this backdrop, the measurement of goodwill is a key audit matter.

Auditor’s response

With regard to the value in use determined by the executive directors, we examined the underlying processes used to calculate the value in use. In particular, we analyzed the identified cash-generating units. With the help of internal valuation experts, we obtained an understanding of the underlying valuation models for the determination of the value in use in terms of methodology and calculation and investigated whether these were defined using the relevant financial reporting standards in accordance with IAS 36. We also examined whether the valuation models were applied consistently. We further obtained explanations from management regarding material value drivers of the planning, including any implications from the Covid-19 pandemic, and examined whether the budget planning reflects general and industry-specific market expectations. We compared the budget values used for the measurement with the medium-term planning prepared by the Management Board and approved by the Supervisory Board. We performed a target-actual comparison of the historical forecast data and the actual results on a sample test basis to assess forecast accuracy by comparing the medium-term planning of the previous years with the actual values of the respective financial years. In this regard, effects attributable to the COVID-19 pandemic were also taken into consideration. We examined the inputs used to measure value in use, such as the applied growth rates and the weighted average cost of capital were compared with publicly available market data and assessed taking into consideration the change in significant assumptions, including future market conditions. In addition, we performed our own sensitivity analyses for the cash-generating units in order to estimate the influence of certain parameters on the valuation model and any potential impairment risk.

Our audit procedures did not lead to any reservations relating to the assessment of goodwill impairment.

Reference to related disclosures:
For disclosures on the recognition and measurement policies applied for goodwill impairment, please refer to the sections "Accounting policies" and "Goodwill" in the notes to the consolidated financial statements.

2. Revenue recognition pursuant to IFRS 15

Reasons why the matter was determined to be a key audit matter

The business activities of the Group mainly comprise manufacturing of series parts for the automotive industry and in the development and manufacturing of tools. In doing so, the Group covers the entire value chain – from development to series production. The automotive industry is currently going through a fundamental transformation that has its focus on solutions for alternative drive technologies. Against this background, the business activities of the Group are increasingly shifting toward the fields of battery and fuel cell technology, which are combined in the E-Mobility business unit. In this connection, contract-based development is gaining in significance.

In accordance with IFRS 15, revenue is recognized when the Group satisfies a performance obligation by transferring a promised good or service based on a contract with a customer. A good or service is considered to have been transferred when the customer obtains control. The transfer of control can lead to recognition of revenue at a point in time or over time, which is to be recognized in the amount to which the Group expects to be entitled. Based on the sources of sales revenue identified by the Group, the matters to be assessed include the existence of prerequisites for revenue recognition over time or at a point in time, the treatment of contract costs and the accompanying effects on the consolidated financial statements.

We consider revenue recognition to be an area posing a significant risk of material misstatement and accordingly a key audit matter, as in the area of series production there is an elevated risk in connection with the recognition of sales revenue in the correct period. The diverse and extensive contractual arrangements and customer-specific general business conditions and delivery terms (incoterms) are taken into account by corresponding controls in the revenue recognition process. However, there is a general elevated risk of error due to the manual design of some control activities.

Revenue recognition in the area of tools also includes the issue of transfer of control depending on various contractual arrangements including acceptance by the customer.

In the E-Mobility business unit, there are specific and in some cases complex contractual arrangements with the customers, particularly in connection with the contract-based development services and collaborations. Therefore, the executive directors have to use their judgment in the accounting, particularly relating to the criteria for revenue recognition over time or at a point in time. In addition, the fulfillment of technical requirements for reaching contractually agreed milestones has to be assessed regularly.

Auditor’s response

In our audit of revenue recognition, in the first step we obtained a fundamental understanding of the business and process and identified the relevant sources of sales revenue and controls. Against this background, we assessed the processes established for the application of IFRS 15 by the executive directors.

In the area of series production, we examined the contracts on a sample basis to determine whether they fulfill the requirements for revenue recognition at a point in time or over time. We verified the requirements for revenue recognition over time for series deliveries by assessing in particular to what extent the series parts do not have an alternative use and there is an enforceable right to payment. For revenue recognition at a point in time, we analyzed the contractual arrangements with the customers, particularly the contractual regulations at the time of transfer of control taking into account customer-specific general business and delivery terms and reviewed the matching recognition of sales revenue on a sample basis.

We also examined on a sample basis, whether there was documentation of customer acceptance for the sales revenue in the tools area as of the reporting date and whether the sales revenue was recognized in the correct period.

In the E-Mobility business unit, using the contractual arrangements we examined the contract-based development services and collaborations, likewise on a sample basis, whether they satisfy the criteria for revenue recognition over time or capitalization of costs to fulfill a contract for revenue recognition at a point in time. We discussed the technical and economic progress of projects with the engineers responsible for the projects. We obtained an overview of the current project status or reaching of defined milestones using the technical project documentation. In addition, we asked the project management about the reasons for deviations between the planned and actual costs and the current estimated costs to complete the projects.

Further, we used data analytics for the entire sales revenue reported in the financial year 2020 to determine how it had been entered in the system and assessed the posting logic in the light of the existing processes. In connection with the existence of sales revenue, we also examined whether the corresponding trade receivables had been settled by payment of the invoice amount in the customary business cycle. We also compared incoming payments with the corresponding bank statements on a sample basis. Moreover, we compared sales transactions with delivery slips on a sample basis.

Furthermore, we analyzed entries other than invoices that were recorded in the course of the year as sales revenue, e.g., credit notes or bonuses, for unusual activity. This also included analyses with regard to irregular margin fluctuations over time. If our data analytics revealed any developments, which deviated from our expectations, we assessed these on the basis of additional substantive audit activities taking into account other audit evidence.

Our audit procedures did not lead to any reservations relating to the recognition of revenue pursuant to IFRS 15.

Reference to related disclosures:

For accounting policies applied in the course of revenue recognition, please refer to the disclosures in the notes to the consolidated financial statements in “Financial reporting” and “(1) Sales revenue”.

Other information

The Supervisory Board is responsible for the Report by the Supervisory Board. The executive directors and the Supervisory Board are responsible for the declaration pursuant to Section 161 AktG on the German Corporate Governance Code, which is part of the statement on corporate governance. In all other respects, the executive directors are responsible for the other information. The other information comprises the Group statement on corporate governance referred to above. Furthermore, the other information comprises the non-financial Group report, which is combined with the non-financial report of ElringKlinger AG, of which we obtained a version prior to issuing this auditor's report. Furthermore, the other information comprises additional parts to be included in the annual report, of which we obtained a version prior to issuing this auditor's report, in particular:

- the Report of the Supervisory Board pursuant to Section 171 (2) AktG
- the Responsibility Statement pursuant to Section 297 (2) sentence 4 HGB
- the section "Letter to Shareholders" in the annual report

but not the consolidated financial statements, not the Group management report disclosures whose content is audited and not our auditor's report thereon.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the executive directors and the Supervisory Board for the consolidated financial statements and the group management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the Group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Report on the assurance in accordance with Section 317 (3b) HGB on the electronic reproduction of the consolidated financial statements and the group management report prepared for publication purposes

Opinion

We have performed assurance work in accordance with Section 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the Group management report (hereinafter the "ESEF documents") contained in the attached electronic file "ElringKlinger_AG_KA_KLB_ESEF-2020-12-31.zip" and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor to any other information contained in the abovementioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the abovementioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the abovementioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from January 1 to December 31, 2020 contained in the "Report on the audit of the consolidated financial statements and of the group management report" above.

Basis for the opinion

We conducted our assurance work on the reproduction of the consolidated financial statements and the group management report contained in the abovementioned attached electronic file in accordance with Section 317 (3b) HGB and Exposure Draft of IDW Assurance Standard: Assurance in Accordance with Section 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410). Our responsibilities under that standard are further described in the "Group auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applied the requirements for quality control systems set forth in IDW Standard on Quality Control: "Requirements for Quality Control in Audit Firms" (IDW QS 1).

Responsibilities of the executive directors and the Supervisory Board for the ESEF documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with Section 328 (1) Sentence 4 No. 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) Sentence 4 No. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and the audited group management report as well as other documents to be published to the operator of the *Bundesanzeiger* [German Federal Gazette].

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Group auditor's responsibilities for the assurance work on the ESEF documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of Delegated Regulation (EU) 2019/815, in the version valid as of the reporting date, on the technical specification for this electronic file.

- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on July 7, 2020. We were engaged by the Supervisory Board on August 6, 2020. We have been the group auditor of ElringKlinger AG without interruption since financial year 2013.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German public auditor responsible for the engagement is Helge-Thomas Grathwol.

Stuttgart, March 25, 2021
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Grathwol	Vögele
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report, which has been combined with the management report of ElringKlinger AG, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Dettingen/Erms, March 25, 2021
Management Board

Dr. Stefan Wolf
CEO

Theo Becker

Thomas Jessulat

Reiner Drews

Glossary

Financials

C — Cash flow

Figure used to determine a company's financial strength. It measures the extent to which cash received as a result of the company's operating activities exceeds its cash outflows and shows the amount of cash generated by the company itself. For the purpose of determining cash flow, an entity's profit for the annual period is adjusted for items that do not produce an inflow or outflow of cash, such as depreciation or changes in provisions. Net cash from operating activities is the surplus of cash generated by operating activities.

Corporate Governance

Includes the entirety of rules, regulations, and values for corporate management and supervision that should be as responsible as possible and focused on sustainability and value generation over the long term.

Countervailing duties

Countervailing duties are trade import duties imposed under World Trade Organization rules to neutralize the adverse effects of state subsidies.

Covid-19

Abbreviation for "coronavirus disease 2019." Covid-19 is a contagious disease caused by severe acute respiratory syndrome coronavirus type 2 (SARS-CoV-2). The coronavirus pandemic, which according to current knowledge initially spread in China in the early 2020s, has led to far-reaching economic challenges.

E — Earnings per share

Earnings per share (EPS) are calculated by dividing the profit attributable to shareholders of a stock corporation by the number of shares outstanding. It is used for the purpose of analyzing profitability and – at a cross-sector level – for evaluating a company.

EBIT/Operating result

Abbreviation for earnings before interest and taxes. EBIT corresponds to the operating result before taking into account net finance costs. At an international level, this figure is commonly used to compare companies' operating earnings power.

EBIT margin

EBIT expressed as a percentage of total Group sales revenue. The EBIT margin shows the profitability of a company's operating business over a specific period of time.

EBITDA

Abbreviation for earnings before interest, taxes, depreciation, and amortization. EBITDA is a financial indicator used for the purpose of measuring the profitability of a company at the operating level, as the indicator does not include any elements influencing profit, for example, in terms of the financing structure, national jurisdiction, or reporting standards applicable to the entity.

EFTA

Abbreviation of European Free Trade Association; it consists of Iceland, Liechtenstein, Norway, and Switzerland, i.e., countries that are not members of the European Union (EU). EFTA pursues economic policy objectives that are less far-reaching than those in the EU.

F — Financial covenants

Refer to contractual clauses in loan agreements. Under these terms, companies obligate themselves to meet specific financial requirements.

H — HGB

Abbreviation for Handelsgesetzbuch (German Commercial Code). The financial statements of the parent company, ElringKlinger AG, are prepared in accordance with HGB.

I — IFRS

Abbreviation for International Financial Reporting Standards. They contain accounting provisions for exchange-listed entities. The application of IFRS has been mandatory in the EU since January 2005. ElringKlinger has been reporting in accordance with IFRS since 2004.

M — M&A

Abbreviation for "Mergers & Acquisitions." The term generally refers to a legal consolidation or amalgamation of two entities into one entity (merger), whereas an acquisition occurs when one entity takes ownership of another entity's stock, equity interests, or assets (acquisition). M&A encompasses all activities relating to the transfer and encumbrance of ownership rights in entities, including the formation of groups of companies, the restructuring of groups of companies, mergers and conversions in the legal sense, squeeze-outs, the financing of corporate acquisitions, the formation of joint ventures, and the acquisition of entities.

N __ Natural hedging

For the purpose of reducing transaction costs and risk, transactions leading to income and expenses of a foreign subsidiary can be made in the same currency, usually the local currency, as a form of natural hedge.

Net debt

Figure that describes the level of indebtedness of a company if all current assets were taken into account for the purpose of repaying its liabilities. Net debt is calculated on the basis of interest-bearing liabilities (primarily bank borrowings) less cash and cash equivalents.

Net finance income/cost

Profit or loss arising from financial transactions, e.g., interest income and expenses, income and expenses attributable to investments, or income and expenses attributable to exchange rate differences. Net finance income or cost is a component of pre-tax earnings presented in the income statement.

Net Working Capital

Indicator used for the purpose of monitoring changes in liquidity. It is calculated on the basis of inventories, current contract assets and trade receivables less trade payables and current contract liabilities.

O __ Operating free cash flow (before acquisitions)

Operating free cash flow represents the funds freely available to the company for distribution. It is calculated by subtracting capital expenditure payments from net cash from operating activities. Operating free cash flow does not include cash payments in respect of acquisitions, cash payments for investments in financial assets and incoming payments from divestments.

P __ PCR tests

Tests according to the polymerase chain reaction method (so-called PCR tests)

Purchase price allocation

Purchase price allocation (PPA) refers to the allocation of the price paid in the purchase of a company or an interest in a company to the individual identifiable assets and liabilities acquired as part of this transaction. As part of the formal procedure of consolidation within the Group, for example, it is possible to capitalize assets of an acquired entity, such as the customer base and order backlog, which would not otherwise qualify for capitalization in normal business. This leads to write-downs that have a dilutive effect on operating profit at Group level.

R __ ROCE

Abbreviation for return on capital employed. ROCE measures a company's profitability and the efficiency with which its capital is employed. In this context, EBIT is divided by average capital employed. At ElringKlinger, capital employed includes shareholders' equity, financial liabilities, provisions for pensions, and interest-bearing non-current provisions such as anniversary and partial-retirement provisions. The average value is calculated as the aggregate of the carrying amounts at the end of the reporting period of the previous year and the current year, divided by two.

S __ Statement of cash flows

The statement of cash flows shows the calculations for the flow of funds generated by a company from operating, investing, and financing activities during the reporting period. The statement of cash flows helps determine the company's ability to generate cash and cash equivalents.

Syndicated loan

A syndicated loan, also known as a syndicated bank facility, is financing offered by at least two lenders – referred to as a syndicate – who work together to provide funds for a single borrower. The focus of syndicated loans tends to be on largescale financing. At the same time, syndicating the loan allows lenders to spread risk.

W __ Working Capital

Indicator used for the purpose of monitoring changes in liquidity. It is calculated on the basis of inventories, current contract assets and trade receivables.

WpHG

Abbreviation for Wertpapierhandelsgesetz (Securities Trading Act)

Technology

B — Battery cells

The designs of larger batteries can be divided into three categories: round cells, prismatic cells, and coffee-bag cells. Round cells and prismatic cells have a (stable) sheet metal housing, whereas flat cells (= coffee-bag or pouch cells) have a casing made of foil. Round cells and prismatic cells differ in terms of the way the foil packets, i. e., the foils in which the energy is actually stored, are designed. The cells also have different exterior shapes: a round cell is similar to a cylinder and has a circular base, whereas a prismatic cell has a square base.

Bipolar plates

The key mechanical components in fuel cell stacks. Their function is to create an electrical interconnection between two cells. In other words, they transmit the electricity generated, supply the cells with hydrogen and oxygen, and distribute the coolant. ElringKlinger develops and manufactures metal bipolar plates. Among the technical requirements for these components are high-precision metal-forming within the contact area (in the micrometer range), accurate, low-distortion laser welding of the cathode and anode plates, and suitable conductive and anti-corrosion coatings.

C — Cell contact system

The cell contact systems developed by ElringKlinger for lithium-ion batteries consist of cell connectors and a cell carrier in which the connectors are integrated as a robust laser-welded construction. Via the cell connectors, the individual battery cells are connected both in a row and parallel to one another. They act as conductors, absorb cell energy and contain sensors. The system consists of a control interface with thermal and electric monitoring.

Cockpit cross-car beam

Structural component located behind the interior panel of the vehicle's cockpit; it supports elements such as the dashboard, steering column, heating modules, glove compartment, etc. Applying HFH technology (hydroformed hybrids), ElringKlinger manufactures cockpit cross-car beams as lightweight components. This involves producing so-called hybrid parts from polymer and metal materials by means of the hydroforming method and plastic injection molding in a single step. Similar structural components include front-end carriers, to which the headlights or other vehicle parts are fitted.

E — Elastomer

Plastics/polymers can be divided into three main categories depending on their processing properties: thermoplasts, duroplasts, and elastomers. The distinctive feature of elastomers is that their shape can be changed temporarily through the application of pressure or stretching before they return to their original form (rubber). The final material varies depending on the raw materials, manufacturing process, and additives used. In the field of sealing technology, ElringKlinger utilizes its own elastomers that have been specially developed and optimized to meet individual customer requirements.

Electromagnetic compatibility (EMC)

The ability of electrical equipment to operate in an electromagnetic environment without causing interference with the environment or other equipment.

F — Front-end carrier

cf. Cockpit cross-car beam

Fuel cell

Converts chemical fuel energy into electrical energy to a highly effective degree. In order to perform this reaction, the cell requires oxygen and hydrogen. The hydrogen can also be obtained from a hydrocarbon-based fuel. This involves a so-called reformer providing the cell with hydrogen gas derived from diesel or natural gas, for example. Unlike batteries, fuel cells do not store energy, but rather convert it. ElringKlinger focuses on the development and production of components for PEM low-temperature fuel cells (cf. PEM fuel cell), which are of relevance to mobile applications.

Fuel cell stack

In a fuel cell context, the term "stack" refers to a complete stack of individual fuel cells, including bipolar plates and retaining and connecting devices. To boost performance, the individual fuel cells are connected in series.

H — Hybrid drive

In the automotive industry, the term refers to the use of two different energy sources to drive a vehicle. This usually involves combining a combustion engine with an electric motor. Vehicles can be categorized according to the level of hybridization:

- Micro hybrids feature an automatic start-stop system and, additionally, a brake energy regeneration system to charge the starter battery.

- Mild hybrids have an electric drive that supports the combustion engine for more performance.
- Full hybrids deliver an output of 20 kW/t, which makes them capable of being propelled solely by an electric engine.
- Plug-in hybrids are comparable to full hybrids. In addition, the accumulator (i.e., the rechargeable battery) can be charged via the combustion engine or the electrical grid.

L __ Lithium-ion battery

Lithium-based batteries are rechargeable, durable, high-energy batteries with high energy density. They are primarily used in electric and hybrid vehicles. ElringKlinger develops and produces, among other products, modular cell contact systems for such batteries.

N __ New Energy Vehicle

In China, the term "New Energy Vehicle" (NEV) refers to vehicles that are powered either partly or entirely by an electric drive, e.g., battery electric vehicles (BEV) or plug-in hybrids (PHEV). In 2009, the Chinese government launched its NEV program for the purpose of promoting the development and introduction of New Energy Vehicles.

Nitrogen oxides (NO_X)

The internationally recognized abbreviation NO_X is used for compounds of nitrogen and oxygen. These gases, which form in the exhausts of combustion engines, are harmful to humans and the environment. Emissions standards are becoming increasingly stringent worldwide and prescribe strict limits for NO_X.

P __ PEM fuel cell

PEM stands for "Proton Exchange Membrane." PEM fuel cells work at low temperatures of around 90°C and have a polymer membrane as their central element. In the synthetic reaction known as cold combustion, oxygen and hydrogen react with one another, aided by a catalyst, releasing electricity and causing water to form. For PEM fuel cells used in passenger cars, ElringKlinger has developed metal bipolar plates. Several hundred such plates are incorporated within a single cell stack.

Polyamide

Polyamides are polymers (plastics) and usually refer to synthetic thermoplastics. ElringKlinger uses polyamides in the production of lightweight plastic housing modules.

Prismatic battery cells

See "battery cells"

PTFE

Abbreviation for "polytetrafluoroethylene". PTFE is a thermoplastic high-performance plastic – commonly known by the trade name Teflon – that has a very low coefficient of friction and is particularly resistant to most aggressive chemicals and external influences such as moisture and UV radiation. PTFE is resistant to temperatures as low as 200°C and only melts at over 320°C. With its modified material Moldflon®, which is registered as a trademark, ElringKlinger has an injection-moldable PTFE high-performance material with a wide range of potential applications, for instance in the field of medical technology.

S __ SOFC (Solid Oxide Fuel Cell)

Solid oxide fuel cells are also known as "high-temperature fuel cells" owing to their high operating temperatures (approx. 800°C). This type of fuel cell can be operated with a wide range of fossil fuels, from which hydrogen gas is obtained using a reformer.

T __ Tier 1/Tier 2

Automotive companies that supply vehicle manufacturers (OEMs) directly are known as Tier 1 suppliers. These generally source some of their products from their own suppliers, which are then referred to as Tier 2 suppliers, Tier 3, and so on, reflecting their position in the supply chain. Most of ElringKlinger's products go directly to vehicle manufacturers, making it a Tier 1 supplier. With regard to exhaust gas purification technology and transmission components, ElringKlinger mostly acts as a Tier 2 supplier.

Imprint

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Further information is available at www.elringklinger.com

Publication Format
For reasons of sustainability, ElringKlinger no more publishes a print edition of its annual report. This Annual Report 2020 of the ElringKlinger Group is published as an online report and as a PDF file. Any printed copy is an offprint.

Disclaimer – Forward-looking Statements and Forecasts
This report contains forward-looking statements. These statements are based on expectations, market evaluations and forecasts by the Management Board and on information currently available to them. In particular, the forward-looking statements shall not be interpreted as a guarantee that the future events and results to which they refer will actually materialize. Whilst the Management Board is confident that the statements as well as the opinions and expectations on which they are based are realistic, the aforementioned statements rely on assumptions that may conceivably prove to be incorrect. Future results and circumstances depend on a multitude of factors, risks and imponderables that can alter the expectations and judgments that have been expressed. These factors include, for example, changes to the general economic and business situation, variations of exchange rates and interest rates, poor acceptance of new products and services, and changes to business strategy.

Supplementary Notes
Due to rounding, some of the numbers and percentage figures specified in this document may differ from the actual values, particularly in the case of summation and percentage calculations. For the purpose of readability, we have not used gender specific forms of grammer when referring to general designations of people. Specific terms relate to all people irrespective of gender.

This report was published on March 30, 2021, and is available in German and English. Only the German version shall be legally binding.

Financial Calendar 2021

MARCH

30 Annual Results 2020, Annual Press Conference, Analysts' Meeting

MAY

06 Financial Results on the 1st Quarter of 2021

MAY

18 116th Annual General Shareholders' Meeting, Virtual event

AUGUST

05 Interim Report on the 2nd Quarter and 1st Half of 2021

NOVEMBER

04 Financial Results on the 3rd Quarter and 1st Nine Months of 2021

MAY 2022

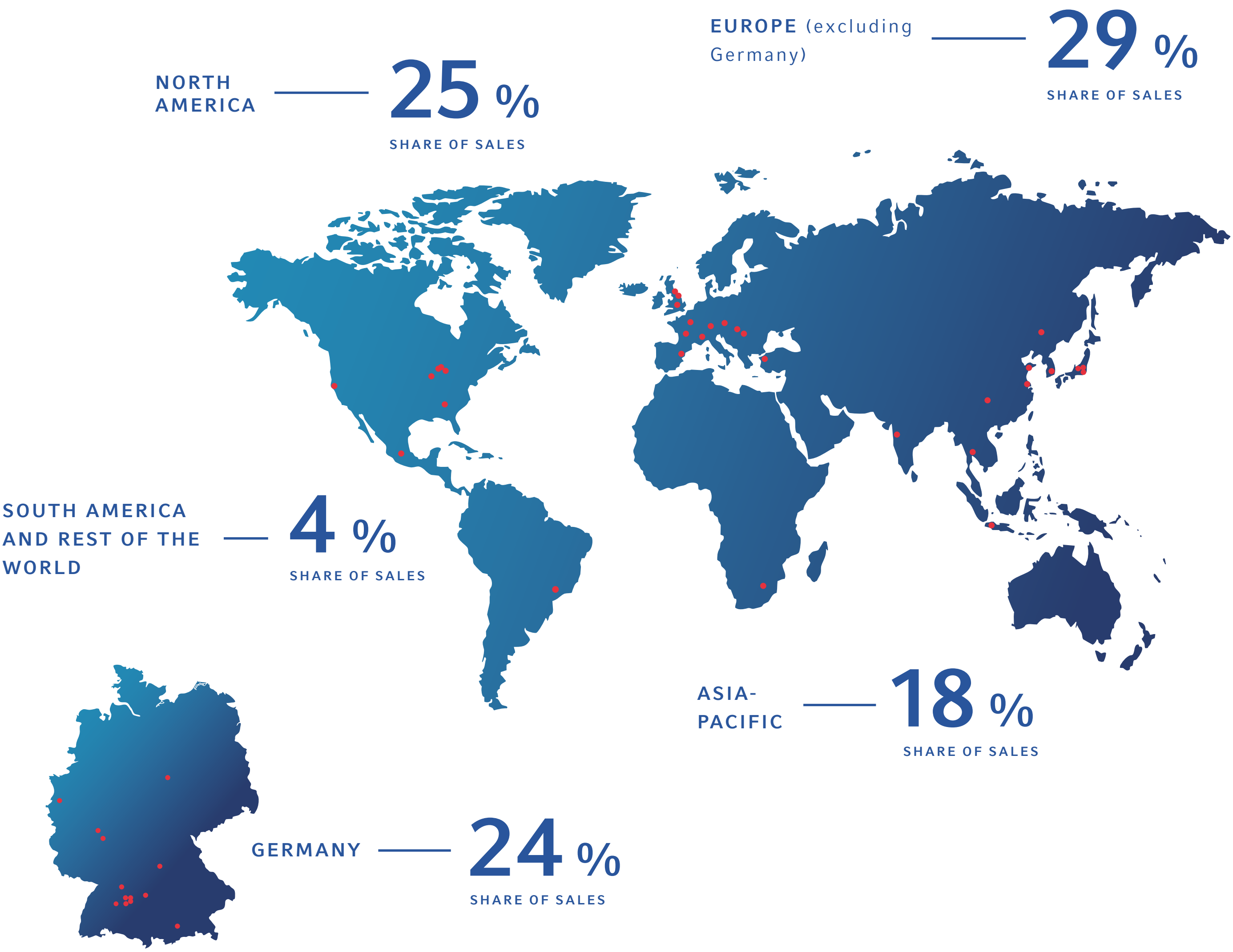
19 117th Annual General Shareholders' Meeting

Changes to the above dates cannot be ruled out.
We therefore recommend visiting our website to check specific financial dates at **www.elringklinger.de/en/investor-relations/financial-calendar**

For trade fairs please visit our websites:
www.elringklinger.de/en/press/dates-events
www.elringklinger-engineered-plastics.com/service/trade-fair-dates
www.elring.de/en/press-events/dates-events

ElringKlinger worldwide

Operating at 45 sites, the ElringKlinger Group has established a corporate presence in 21 countries. The company supplies almost all of the world's vehicle and engine manufacturers from 39 production sites located around the globe.



EUROPE (excluding Germany)

- Redcar (GB)
- Gateshead (GB)
- Warwick (GB)
- Nantiat/Chamborêt (France)
- Poissy (France)
- Reus (Spain)
- Sevelen (Switzerland)
- Wels (Austria)
- Turin (Italy)
- Kecskemét-K. (Hungary)
- Timisoara (Romania)
- Bursa (Turkey)

GERMANY

- Dettingen/Erms
- Bietigheim-Bissingen
- Bissingen/Teck
- Geretsried-Gelting
- Heidenheim
- Idstein
- Langenzenn
- Lenningen
- Mönchengladbach
- Nürtingen
- Rottenburg/Neckar
- Runkel
- Thale

ASIA-PACIFIC

- Changchun (China)
- Suzhou (China)
- Chongqing (China)
- Qingdao (China)
- Tokyo (Japan)
- Saitama (Japan)
- Takasaki (Japan)
- Gumi (South Korea)
- Ranjangaon (India)
- Bangkok (Thailand)
- Karawang (Indonesia)

NORTH AMERICA

- Leamington (Canada)
- Buford (Georgia, USA)
- Plymouth (Michigan, USA)
- Southfield (Michigan, USA)
- Fort Wayne (Indiana, USA)
- Fremont (California, USA)
- Toluca (Mexico)

SOUTH AMERICA AND REST OF THE WORLD

- Piracicaba (Brazil)
- Alberton (South Africa)

As at December 31, 2020

Key Figures

ElringKlinger Group at a glance

		2020	2019	2018	2017	2016	2015	2014
Order Situation								
Order intake	€ million	1,483.1	1,737.2	1,735.3	1,732.0	1,693.7	1,615.3	1,418.6
Order backlog	€ million	1,033.1	1,030.3	1,020.1	1,000.6	932.5	796.2	688.2
Sales/Earnings								
Sales revenue	€ million	1,480.4	1,727.0	1,699.0	1,664.0	1,557.4	1,507.3	1,325.8
Cost of sales	€ million	1,195.5	1,401.7	1,328.9	1,255.6	1,161.5	1,133.0	967.4
Gross profit margin		19.2 %	18.8 %	21.8 %	24.5 %	25.4 %	24.8 %	27.0 %
EBITDA	€ million	181.5	181.0	196.6	238.4	231.2	222.8	233.4
EBIT/Operating result	€ million	27.7	61.2	96.2	137.3	135.6	135.2	154.0
EBIT margin		1.9 %	3.5 %	5.7 %	8.3 %	8.7 %	9.0 %	11.6 %
Adjusted EBIT, pre ppa[1]	€ million	28.1	63.2	100.2	141.8	140.4	140.4	162.3
Adjusted EBIT margin, pre ppa[1]		1.9 %	3.7 %	5.9 %	8.5 %	9.0 %	9.3 %	12.2 %
Earnings before taxes	€ million	-13.6	41.7	81.4	110.1	124.1	128.8	153.1
Net income	€ million	-40.0	5.0	47.9	73.8	82.6	95.8	110.6
Net income attributable to shareholders of ElringKlinger AG	€ million	-40.8	4.1	43.8	69.9	78.6	91.6	105.7
Cash Flow								
Net cash from operating activities	€ million	217.8	277.6	91.6	95.5	175.7	123.3	149.9
Net cash from investing activities	€ million	-60.6	-84.5	-120.7	-193.2	-189.7	-212.7	-168.0
Net cash from financing activities	€ million	-155.8	-103.8	30.0	109.3	4.5	65.3	20.1
Operating free cash flow[2]	€ million	164.7	175.8	-86.2	-66.6	-3.8	-65.2	-12.4
Balance Sheet								
Balance sheet total	€ million	1,963.1	2,146.5	2,079.7	2,022.4	1,878.2	1,765.8	1,558.8
Equity	€ million	812.8	891.2	890.1	889.7	886.4	855.7	775.2
Equity ratio		41.4 %	41.5 %	42.8 %	44.0 %	47.2 %	48.5 %	49.7 %
Net Debt	€ million	458.8	595.3	723.5	655.3	538.8	486.8	348.3
Returns								
Return on equity after taxes		-4.7 %	0.6 %	5.4 %	8.3 %	9.5 %	11.7 %	15.0 %
Return on total assets after taxes		-1.2 %	1.2 %	3.1 %	4.5 %	5.3 %	6.5 %	8.2 %
Return on Capital Employed (ROCE)		1.7 %	3.4 %	5.5 %	8.2 %	8.7 %	9.5 %	12.4 %
Human Resources								
Employees (as at Dec. 31)		9,724	10,393	10,429	9,611	8,591	7,912	7,255
Stock								
Earnings per share	€	-0.64	0.06	0.69	1.10	1.24	1.45	1.67

[1] EBIT adjusted for one-time effects and amortization resulting from purchase price allocation

[2] Net cash from operating activities minus net cash from investing activities (excluding acquisitions/divestments and investments in financial assets)

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